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AMERICAN FOREIGN TRADE

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The United States as a World Power in the New Era of International Commerce

BY

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TO

ALBERT G. ROBINSON

PREFACE

The epoch of the Great War is the beginning of a new era in the trade relations, as in the political relations, of the world. At the outset the war was viewed merely as an interlude in the shifting drama of international commerce. But the drama proved to be tragedy. Instead of an interlude, the war became the prelude to economic events whose full significance is as yet somewhat dimly apprehended.

One of its consequences is the readjustment of their industry, trade and finance by all nations. The United States in this readjustment has become the world power in international commerce. Foreign trade for the first time in their history has come to have definite meaning to the American people. They have begun to realize its place in their own economic system. It may be viewed as a phase of domestic policy or in the manifold aspects of world policy.

The larger view invites. It assumes readiness to recognize that exports are only one factor in foreign trade; in other words, that this is a question of mutual markets. It presumes that the manufacturer in the United States is ready to seek the market abroad as a primary market. It involves understanding of the United States as a lending country with the opportunities and the responsibilities that belong to a creditor nation.

Information concerning the resources, the industries, and the trade of the several sections of the world, the economic tendencies and fiscal policies of the nations, is the basis necessary to an intelligent survey of the entire field of foreign commerce. This information I have sought to give. For the benefit of the very large number of persons who confess a constitutional shyness for figures a somewhat sparing use of statistics has been made. Yet it may be suggested that the trade statistician, followed with discrimination, is a much safer guide than the political economist with his closet deductions, or the platform orator with his platitudes and generalities.

Since information rather than the propaganda of opinion is the purpose of the pages that follow, a few observations may be made on such views as are given expression.

The new era is one of international coöperation in finance and trade to a degree undreamed of in the period before the Great War. The United States is the commanding factor in this coöperation. But this circumstance does not change the essential conditions under which commerce is conducted. Emotional economics have no part in international commerce. It deals with actualities. International trade benevolence with its overlapping bureaucracy is likely to be as demoralizing as indiscriminate charity. The world's markets are competitive and it is good for the world's consumers that they should be so. Equally it is good that each nation should follow its own bent and should give play to its own genius in cultivating these markets.

Inherited paternalism flowering into governmental control, autocratic state participation in trade, finance, and industry, may suit some peoples and obtain the measure of popular support necessary to incorporate them into national policies. Individualism with the wide field it affords to initiative and the encouragement it gives to the industrial and commercial instinct, may prove more suitable to other peoples. It is likewise for them to determine their own national policies. That the American spirit in developing world trade will be strongest under the individual impulse is the author's belief. The correctness of this belief may be examined and tested in the light of a general survey of the underlying economic and political conditions which affect the trade of the several countries of the world.

C. M. P.

WASHINGTON, AUGUST, 1919.

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FOREIGN trade, to the popular mind, is selling goods abroad. Buying goods abroad receive little thought. That is comprehended in the more resounding term of international commerce, which means the movement of merchandise across boundary-lines both ways. Exports and imports are the opposite pages of a commercial nation's ledger. The mechanism by which the interchange of commodities is effected, the shipments of specie to balance accounts, and the adjustment of credits without such shipments, are somewhat vaguely understood as processes entering into international commerce.

The popular conception of foreign trade might seem sufficiently clear for the purposes of a work of general character. It reflects the manner in which the ordinary man views the subject, and ordinary men, in their totality, make up the American people. But the significance of the United States as a world power in international commerce requires a more precise definition. American foreign trade is the United States buying goods from other countries as well as selling products to other countries. The term "American" is used with the knowledge that South-Americans, Central-Americans, Mexicans and Canadians have valid objections to one nation appropriating it. But accepted usage in the objecting nations themselves may be urged in mitigation of the offense. It is less awkward to follow the common practice than to differentiate among several Americas and political subdivisions of the Americas, or to point out the distinction between the United States of Mexico, Colombia, Brazil or Venezuela and the United States of which Washington is the capital.

The nature of foreign trade is not changed in the period of reconstruction following the Great War. The change is simply in form from destructive war consumption to reproductive peace consumption. Production resumes its normal course. War activities die; peace activities quicken into fresh life. New industries are born out of the war chaos. Old markets survive. New markets are created. Yet wheat, corn, pork, beef, mutton, sugar, coffee, tea, cotton, wool, iron, copper, oil, coal, lumber, the interchange of these products in their raw or manufactured state, constitute the foreign trade of the new as of the old era.

The consequences of the Great War change the currents of the world's commerce, and that is all. Political re-alinements, groupings of peoples under changed boundaries, the birth of new nations, creditor countries becoming debtors, and debtor countries becoming creditors, do not substantially modify the nature of foreign trade, though they may alter materially the conditions governing that trade. Its nature may be examined in the general aspect before describing the position of the United States.

The imports of all the countries of the world taken together are the only measure of the total commerce. They are at best a defective measure, yet they approximate a real standard, for they show the value in money totals of goods that have crossed boundary-lines, and thus have become foreign trade. The common error is to add imports and exports. This practice ignores the fact that the exports of one country are the imports of another country, thus counting each transaction twice.

Students of international economics, and manufacturers seeking markets abroad, need not confuse their brains by too much effort to reconcile conflicting export and import statistics. Trade statisticians, on their part, between the uncertainty governing the exports of one country that become the imports of another country, and the varying values due to the numerous processes involved in the interchange of commodities, at best can only approximate the total of the world's commerce. They are like the metaphysicians who, seeking to define the conditioned and the relatively conditioned, are content to discover some appearance in the midst of things.

In general it is true that the difference between values in countries of exportation and countries of importation is made up of carrying charges, exchange paid to bankers, and merchants' and shippers' profits; but it is always questioned whether the total amounts thus paid explain the whole difference in computed values. Allowance for freight, insurance, re-exports, customs duties, arbitrary tariff valuations, market values at the place of manufacture, different classifications, and different administrative methods, is inconclusive. Too often it is misleading. The most painstaking investigation of these factors only gives baffling discrepancies.

Growth in population, machinery as an element in production, subdivision of labor, new lands opened to cultivation — all these are factors in the increase of world trade during a given period. But it is not of great significance whether the total of import values due to these and other causes, which constitutes the world's commerce, amounts to thirty billion dollars or to thirty-one billion dollars in a given year.

The period preceding the Great War was one of abnormally high prices. Whether this was wholly due to gold inflation it is not necessary to examine. The result was to give a fictitious increase to world trade everywhere. There had been some increase in quantity as well as in values, but not a proportionate one. Expanded commerce, through expanded values, with an actual decrease in the quantitative volume of trade, was an incident of the war.

Dollar figures, in describing world commerce, appeal to the imagination by their stupendousness. To talk in billions is to think in billions, and the habit of mind grows; yet the imagination, in dwelling on these figures, should not become too riotous. Where the quantities of goods exported increase with rising prices there is a real advance in foreign trade, although the augmented quantities may not be proportionate to the advanced prices. What was a dollar's worth of wheat in export trade in the midsummer of 1914 had become two dollars' worth in the midsummer of 1917; but the bushel was still only sixty pounds, and five bushels of wheat were still required to make a barrel of flour of one hundred and ninety-six pounds.

Farm products afford numerous illustrations of an actual decrease in volume, as measured by quantity, with an increase in value, as measured by prices. Before the United States became a participant in the war, and before the Government fixed a minimum price for wheat, this tendency was clearly manifested. The same phenomenon was shown in the case of iron and steel products.

In the fiscal year 1915, 259,643,000 bushels of wheat, valued at $333,523,000, were exported. In 1917 the exports were 149,532,000 bushels, valued at $298,180,000. For the same years, respectively, the exports of wheat flour were 16,183,000 barrels, valued at $94,869,000, and 11,942,000 barrels, valued at $93,198,000. In this case a decrease of 4,240,000 barrels meant a decrease of less than $2,000,000 in the values.

In iron and steel products exports of 220,570,000 pounds of wire rods were valued at $2,744,000 in 1915. The value of 329,786,000 pounds was $9,870,000 in 1917. The value of 168,664 tons of structural iron and steel exports was $6,289,000 in 1915. The value of 339,500 tons was $22,911,000 in 1917.

These examples show that the quantity of exports and imports is a more correct measure of foreign trade than values or prices. Dollar figures should be interpreted in that light. It is apparent, too, that values in the future will afford little satisfaction in seeking to make trade comparisons with the past. The period before the war, as has been stated, was one of abnormal high prices. The war period was one of inflated prices. The period after the war is one of a permanent higher-price level. The dollar is a dearer dollar the world over because it buys less. Some recessions from the extreme prices may be reached, especially in food commodities, but they are not likely to affect the general situation.

The year 1919 may be taken as the yardstick for the years to come. Five years thereafter, or ten years thereafter, it will be possible to make comparisons on the basis of the year 1919. To attempt comparisons on the basis of 1914 would require by laborious processes to set forth what a dollar bought then and what it buys in the years after the war. It is an unnecessary labor. In fixing the position of the United States in world commerce in the future it may therefore prove desirable to give closer attention to quantative measurement rather than to price measurement, or at least to remember that the true nature of this foreign trade is not to be judged solely by tables of values. Dollar figures should be interpreted in that light. They do not impair the position of the United States in international commerce as it may be exhibited by values.

The essential elements of the foreign trade of the United States may be classed as visible and invisible. Some of them are as clear as physical objects to the naked eye, while others are portrayed only through mental imagery. The quantity of goods exported and imported, the volume of the movement, and the total of prices given in terms of monetary values are a simple matter of statistics; but there are intangible elements which also must be taken into account in determining the true worth of foreign trade in the industrial and commercial movement. These include the gain to domestic industries by providing an outlet for excess products, the domestic markets created by export trade, and the steadying influence of the foreign market on the home market; the effect of the wages paid in production and distribution, the demand created for products of the factory through the business built up by investments abroad, and the benefits arising from the employment of bank reserves in international commerce.

The transportation element may be shown by examples of cargoes originating at points distant from the seaboard. A carload of agricultural implements shipped from Chattanooga to Savannah, for export, before the war, paid at the rate of twenty-five cents per hundred pounds in carload lots. This meant $50 for a single carload of 20,000 pounds, or $1000 for a trainload of twenty cars. The $1000 freight on the twenty carloads was divided beween labor and capital, since it was paid out in wages, salaries, interest on bonded debt, and in dividends on stock. It was an addition to the amount paid out in the wages of production from the primary material until this was transformed into a carload of plows, for which the Argentine farmers paid the community of Chattanooga.

Similar analysis may be applied to a hundred carloads of mining machinery shipped from Chicago to New Orleans for ocean carriage through the Panama Canal to the mines of Peru and Chile; to a trainload of coal from the West Virginia mines to tidewater at Newport News for sea freightage to Rio de Janeiro or Buenos Aires; to a cargo of crucible steel products from Pittsburgh to New York for ocean carriage to European ports; to twenty carloads of wire products from Birmingham to Savannah for shipment to Brazil and the Argentine Republic; to a trainload of packing-house products from Kansas City to New Orleans for distribution throughout the West Indies; to a cargo of wheat from the Dakotas or flour from Minneapolis to seaboard for carriage across the Atlantic to Italy and Spain; or to carloads of cotton from the Texan plantations to Galveston for ocean carriage to Liverpool. The deduction is clear that the transportation of products from the interior to seaboard, or to the frontier, as in the cases of Canada and Mexico, is an added source of income to the whole country that would not exist in the absence of foreign trade.

Another intangible, but very definite, benefit of foreign trade is that of having an excess of goods taken from the home market, and of aiding the manufacturer to reduce overhead charges and secure full return on his capital by enabling him to employ his factory capacity to its full extent. This does not need to be stated in theoretical terms. In illustration, the anarchy in Mexico in 1913 caused a falling off of $20,000,000 in the exportation of products from the United States, so that the factory output was reduced by a definite quantity, and there was less employment.

This meant just that much subtraction from the general sum of industrial activity in the profitable employment of labor and capital during a year of notable business depression. The loss was not entirely negative, since the purchasing power in the domestic market was reduced by the amount of money that would have been received from these commodities, a loss to the producer of the raw material that would have been consumed in the factory, to the wage-earners who would have turned it into finished product, and to the transportation companies that would have carried these products to the Mexican markets.

A common method of illustrating the benefit of foreign trade is the geographical one. This was employed by Mr. Blaine in his campaign for enlarging the markets of the United States in South America. He analyzed the cargo of an outgoing vessel, the various commodities of which the cargo was made up, and the part of the country from which these commodities came. This method might be called the sentimental one. It is useful in localizing the subject.

The relation of foreign trade to domestic prosperity must be determined in the light of the intangible elements as well as of the visible values, but even in a comparison of visible values the tendency is to overestimate the internal movement and to understate the foreign movement. The wheat-fields of the West and the cotton-plantations of the South are drawn on by the flour-mills and the textile factories for raw material whether their products be consumed at home or be sent abroad. The same fields and the same factories provide the industrial and commercial activities, so that there is no exact means of separating the essentials of domestic trade from the essentials of foreign trade. They are not distinct, but blend together.

The factors of internal trade in the United States, in official formula, are manufactures, agricultural products, mining products and minerals, fisheries and furs, the value of imported goods, and the value added to the foregoing groups by transportation. A midyear of the war period serves for illustration. An estimate on this basis fixed the internal trade of the United States for 1915 approximately at $45,000,000,000. The value of the foreign trade for the same year, as shown by actual statistics of exportation, was a fraction less than $4,500,000,000. On this reckoning the foreign trade in the year given was approximately ten per cent. of the commercial activities of the country, without allowance for the intangible values, such as those noted above. It may be remarked further that the domestic movement of commerce is based very largely on estimates, while export trade is given in definite terms, based on the specific declaration made by shippers under regulations laid down by the Government.

Two opposite schools of political thought in the United States are not so far apart in their mental attitude toward foreign trade. To those of the Chinese-wall belief exports are of no consequence. They would be content solely with the domestic movement. The other school, that of free trade tendencies, while theoretically equally interested in exports and imports, in practice shows little regard for exports. Its concern is for imports. Even the scholar in politics sometimes errs in failing to give to goods sent abroad their proper place in the commerce of the country. President Wilson, in a speech at Cincinnati in 1916, declared that competent authority placed the export trade of the United States at only four per cent. of the total commercial movement of the country. One of the statistical bureaus of the Government, the Bureau of Foreign and Domestic Commerce, reached a different conclusion, as follows:

Factors of Internal Trade of the United States 1915

Manufactures produced, 1915	$27,800,000,000
(Based on Official Census, 1914, which gave $24,246,323,000.)	
Agricultural products	10,500,000,000

Mining Products, minerals, etc.	$ 2,500,000,000
Fisheries, furs, etc.	500,000,000
Value of imported goods, 1915	1,700,000,000
Value added to foregoing groups by transportation	2,000,000,000
(Freight earnings of leading railways, Interstate Commerce Commission.)	
Total Internal trade	$45,000,000,000
Value of foreign commerce, fiscal year, 1915	$ 4,442,759,000
Relation of foreign trade to estimated internal trade, ...	9.83 per cent.

The turn-over of a country's business, as measured by bank clearings, stock sales, and similar transactions, is not a true standard on which to determine the comparative values of domestic and export trade. It presents a series of duplications. Production is a more certain standard. It reaches back from the goods either on the sales-counter or on board the outgoing vessel, to the farm and the forest, the mine and the factory. The broad view is the one to be taken. This recognizes that domestic trade and foreign trade are not actually separable in determining the factors in national prosperity. They are interworking and interdependent, mutually sustaining and strengthening each other.

With this brief exposition of what constitutes foreign trade and its relation to domestic prosperity, the place of the United States in world commerce may be described. As an exporting country it has progressed from the primitive barter of surplus farm products and the raw materials of industries to the sending abroad of all classes of manufactured products. The nature of this transformation is shown vividly in the exports of agricultural machinery. John Deere, the Vermont blacksmith who settled on the prairies of Illinois and replaced the crude iron blade of the pioneer farmer by steel plows, was one of the leaders in the transition from the export of agricultural products to manufactured articles. The chilled plow of John Oliver was another chapter in this trade expansion. Cyrus McCormick, Hussey, Whitley, Warder, and their rugged generation of inventors and forceful manufacturers made the romance of the reaper in the Mississippi Valley a world romance. So it was, too, with the threshing-machine.

At the close of the Civil War the enterprise of these pioneer makers of farm machinery had opened a foreign market for agricultural implements to the amount of a million dollars. The exports were almost stationary for the next ten years. Then they began to grow, and the growth was rapid until the business of exporting agricultural machinery became a distinctively national one. This is the progress in the exports through the different periods:

1893	1898	1903	1908	1913
$5,027,000	$12,432,000	$21,006,000	$22,073,000	$40,572,000

The blast-furnace, with its multiform products, is the most comprehensive and illuminating chapter in the commercial expansion of the United States and affords the most striking illustrations of the changing nature of American-foreign trade. The eye in traveling across the page sees the march of exports of iron and steel and their manufactures in this wise:

1893	1898	1908	1913
$30,106,000	$70,400,000	$184,000,000	$304,600,000

The slender thread which transmits the mysterious force of nature into myriad industrial activities is another example of the new industrial factors in international commerce which have entered into the changing nature of the foreign trade of the United States. The statistical story of the red metal is paragraphic. It is told in the statement that in 1913 the exports of domestic copper and its manufactures, excluding ore, amounted to $140,165,000 as against $4,525,000 in 1893. The electrical industry development is a chapter in copper. In 1914 the exports of electrical machinery and appliances were approximately $25,000,000. In 1893 they were not important enough to have a category of their own, but were included under iron and steel products.

The modern miracle of the motor vehicle and its accessories is an even more striking instance of the changing characteristics of American export trade. It starts with a cipher. In 1900 there were no statistics of exports of automobiles and their accessories. In 1914 the exports were $38,000,000. The war year 1917 carried them to more than $100,000,000. Possibly the aircraft of commerce will show a similar rapid growth.

Evidence of the transformation in the character of the exports of the United States is exhibited in two twelve-month periods twenty years apart. It follows:

Exports of Domestic Merchandise[1]

	Crude materials for manufactures	Crude materials for food-stuffs	Prepared or semi-prepared food-stuffs	Semi-manufactured articles	Manufactured articles
1893.	$247,289,000	$153,278,000	$247,075,000	$ 49,070,000	$130,000,000
1913.	731,758,000	187,907,000	321,204,000	408,807,000	776,297,000

1 The statistics relating to American trade in these pages are drawn principally from the Statistical Abstract of the United States, the annual summary of Commerce and Navigation, and the other official

The most striking feature of the foreign trade of the United States in the future clearly will be the dominance of manufactured and semi-manufactured products in exports, and the predominance of raw material for manufactures and of food-stuffs of the tropics in imports. This in large degree indicates what world markets will be most sought.

Readjustment of the visible and invisible elements entering into the nation's balance of trade is one of the economic events of the present. Some of these factors are entirely shifted. The payment of ocean freights and insurance to foreign companies virtually is ended by the establishment of the American merchant marine. That was formerly one of the principal items in offsetting the nominal excess of exports over imports. Against this is the probability that the invisible balance due to remittances by European families to kinsfolk will be larger than in any period previous to the Great War. The margin which thrift offers above the cost of living will be drawn on more heavily than ever to replenish distressed Europe. Moreover, the international travel account, sometimes called tourist outlay, which always was a counterbalancing factor, will be augmented in favor of Europe. Individual Americans and groups of Americans, whether drawn by morbid curiosity to historic battle-fields, or moved by nobler sentiments, will travel over the Continent in much larger numbers than ever before.

Interest payments abroad on many kinds of American securities, on the other hand, will suffer a sensible diminution, due to their return to the United States in the

reports of the several Departments of the Government. It has not been thought necessary to indicate them by special references except in a few instances.

early period of the war. Offsetting the reduction of interest in dividends remitted by the United States on securities of private companies will be the interest payments on the war loans made to the Government of the United States by the several governments of the Allied nations.

In the initial stages of international settlements after the war the prospect was crisply put as a question of gold or goods. That is, would the United States seek to add to its enormous hoard of gold by exacting further payments, or would it take goods, which might glut its own market? The situation was not so acute. The other alternative was offered of taking foreign securities. This means principally the obligations of private corporations in European countries with or without the backing of their governments.

The bare payment of interest on large volumes of these securities will in itself be another factor in the international trade account. The quantities of American material which will enter into this rehabilitation are an important element in the somewhat intricate process of the export of capital, but they are clearly a means of adding to the export trade of the United States. They are a form of investments abroad.

Detailed calculation of this factor is not necessary in a general survey of the prospective export commerce. The supreme fact is that the United States has become a lending country, a creditor nation. The lending power of the Federal Reserve Act is one of the elements in its new status, but this power is not applied solely to the European war area. It has broader prospects in fields such as South America and China. In determining the circumstances of its foreign trade, the United States will view the world as one market, but it will segregate the various groups marked by geographical lines and economic conditions peculiar to themselves. It will take account of the change in the nature of its exports from agricultural to manufactured products, but it will not entirely ignore the place of farm products in this future trade. They call for consideration before entering into other aspects of the subject.

CHAPTER II

THE FARM IN FOREIGN TRADE

Economic basis of the new agriculture — Checking the food waste — War-time production — A bushel of wheat per person in export trade — Corn and swine — Cattle and meat products — Cotton as a factor in foreign business — Insufficiency of production outside the United States — Lancashire's futile efforts — Reflex influence of crops on domestic prosperity — The American farmer's prospects.

THERE is a new agriculture in the United States. It is not a creation or a consequence of the Great War. It was brought into vigorous life in the last third of the century before the war. Its functions during that period were beneficently exercised in increasing production of staple crops to meet a phenomenal emergency. Its functions in the future are to fix a definite place for itself in international food economics and to fix the position of the American farm in foreign trade.

The new agriculture takes account of economic production, economic distribution, and economic consumption. It recognizes that the old basis of foreign trade, in which farm products formed the bulk of the exports, is gone, yet it does not assume that the prosperity of the farmer is to be maintained by discouraging exports of agricultural crops on the theory that all that can be obtained from the soil is needed for domestic consumption.

Aware that the United States is virtually self-sustaining in the production of food supplies for an increasing population, it seeks to adjust agricultural exports to the changes that have come upon the country through the growth in the exportation of manufactured commodities, and to adapt itself to the greater changes which are yet inchoate, but which are sure to follow the transition from the upheaval of trade and industry on account of the war developments to commercial intercourse in normal circumstances. American agriculture was awakened, quickened, vivified by the war demands, but it will require time to find its place in the new adjustments of international trade relations.

The first consideration is that the situation should be met by an intelligent organized class of producers who understand the economic basis of the industry in which they are engaged. The farmer as a business man is no longer a myth. Unceasing educational propaganda by the National Government, supplemented by the state governments, has placed farming on a level with other forms of productive activities. Moreover, every year an increasing number of young men are graduated from agricultural colleges and similar institutions. They have been taught what scientific farming is and how it should be managed on a business basis. Rapidly they are supplanting the old-time agriculturist, who grew and marketed his crops in a haphazard way, and never knew whether he was making money or losing money. It is therefore the farmer as a business man who in the future is to be looked to in determining the place of the farm in foreign trade as well as in domestic business. He also may be depended on to understand the mutual relation of the farm and the factory in its international, as well as in its national, bearing.

The new agriculture, in the greater attention it gives to the processes of production and distribution, fixes the position of farm products in export commerce. The war stimulus will be more than temporary, yet always it should be borne in mind that agricultural production is a business proposition. The city farmer, who sits at the editorial table of the newspapers and institutes back-to-the-land movements, and who tells the farmer on the farm the need of raising more wheat or milch cows or beef cattle, or of rotating his crops more systematically, is not the person best fitted to advise what should be done. The farmer will do all these things when he sees a profit in them, and when he is able to find the labor required, since his business, while subject to more uncertainties than commercial business, nevertheless is based on growing crops and raising live stock for profit. There is profit for him in foreign trade, but he must be convinced that this is so before he will concern himself as to the best methods of bringing it about that a definite proportion of his products in one form or another find its way abroad.

Managing his business from this point of view, the farmer is concerned as an observer as well as a producer. As an observer, while noting stolidly the criticism of his own wasteful methods of production, he takes note of the American habit of extravagance in consumption. Riotous wastage of food by American families has been the wonder of foreign economists and the despair of domestic economists. The estimate of the Department of Agriculture in 1914 was that $700,000,000 was wasted annually. This was an enormous loss.

In the past exhortations to increased efficiency in consumption through persuading the great body of consumers to be more saving had little effect. The American family is a spending family, and its marked trait is contempt for petty saving. High cost of living in the midst of prosperity, with everybody employed, is one remedial agency that is working a reform. Even before the United States entered the war, the family market-basket could not be filled so lavishly as formerly. In consequence, its contents had to go further. American families were becoming less wasteful because they lacked the means of being extravagant. It also is possible that the increased production of food-stuffs, through family gardening, engendered by the war stimulus to patriotic energies, as well as by the pinch of necessity, will not pass as an emotional spasm that will spend itself in a single season, but will have lasting results.

American agriculture responded sympathetically to the encouragement given it in the war emergency. The whole story can be briefly told. The prospective demand was the incentive. The acreage planted was the response. In 1914 the corn acreage was 103,435,000; in 1918 it was 130,835,000 acres. The wheat acreage was 54,661,000 and 64,590,000 acres in the same years respectively. Yields are subject to climatic conditions, but they are measurably proportionate to acreage planted. The corn crop in 1914 was 2,673,000,000 bushels; in 1918, 2,749,000,000 bushels. The wheat crop in 1914 was 891,000,000 bushels; in 1918, 919,000,000 bushels. The live-stock industry was equally responsive. Beef cattle in 1914 numbered 35,855,000; in 1918, 43,546,000. Swine were 59,000,000 and 71,374,000 in the respective years. Sheep alone, whether for mutton or for wool, failed to show an increase. Meat production as a whole was 5,000,000,000 pounds greater in 1918 than in 1900. The actual production was 23,366,000,000 pounds.[1]

What might be called the guaranteed inducement for this increase in the cereals and in live stock and beef products was the act of Congress of August 10, 1917, empowering the President to fix a reasonable price for wheat,— and supplemental legislation in connection with food supplies for the Allies. The guaranteed price fixed for the wheat crop of 1917 was $2.20 per bushel, and $2.26 per bushel for that of 1918 and 1919. Before this legislation had been enacted and before the United States became a belligerent, the incentive had been the lessened production in large areas on account of the war, and the fixed and definite needs which it was known would have to be supplied for the Allies.

This war-time production is a true measure of the possibilities of American agriculture in foreign trade. Wheat is the world's great competitive food product, and wheat exports in the form of grain and flour have been of inestimable value to the American farmer. On the basis of one hundred million inhabitants, the United States required annually 650,000,000 bushels of wheat for consumption and for seeding. The five-year average up to 1917 was 728,000,000 bushels. This included the bumper crop of 1915, which was in excess of 1,000,000,000 bushels, and the shortage which affected the winter-wheat crop of 1917. It is of no economic consequence that during the early war period exports ranged from 240,000,000 to 332,000,000 bushels annually. Regardless of war conditions, there is an average of production

[1] These and other statistics are taken from the "Agricultural Year Book," and from the report of the Secretary of Agriculture for 1918.

and consumption in the United States, with a normal surplus for export.

The exports of wheat in ordinary times previous to the war were 105,000,000 bushels annually. According to the statement of the secretary of agriculture, this was a small fraction more than one bushel production per person in the United States. The economic proposition, therefore, is to keep the wheat production moving with the growth in population so that there may be an average surplus of one bushel per capita for export left over from domestic consumption. With the constantly increasing efficiency in production, through the coöperation of the wheat-grower with the governmental and state agencies, there is no ground for assuming that this surplus cannot be kept up. The proportion of wheat manufactured into flour for export also should be maintained. It would be as great folly to discourage exports of flour as to discourage wheat exports.

Corn, it has been said, is the great American farm crop, and an average annual production approximating 3,000,000,000 bushels justifies this statement; but it is further said that corn is not an export crop, since the quantities shipped abroad rarely exceed two per cent. of the total production, and in some years fall below one per cent. It might be observed that the exportation of 50,000,000 bushels of corn, valued at $30,000,000, as was the case in 1915, is not a negligible item in the prosperity which foreign trade brings to the American farmer. But the production of corn is not to be considered solely with reference to its exportation in its primary form.

Years ago, when James Wilson taught the farmers of Iowa the increased value of their corn crop if turned into hogs, he demonstrated its worth not only in domestic trade, but also in foreign commerce. The State of Iowa raises approximately 10,000,000 swine annually, and one of the principal sources of its prosperity is pork products. The lard that goes to the West Indies and Peru, the bacon and ham that go to Cuba and Brazil, and the sundry other meat products are all essential factors in Iowa's prosperity. There has been no decrease in the number of swine in the United States. On the contrary, the number increased from 58,185,000 in 1910, to 67,453,000 in 1917. While the increase is not proportionate to the growth in population, there is no marked disproportion.

What is true of hog products is true of other meat products. For several years cattle-raising was stationary, and it was feared that through the breaking up of the big ranches in the West there would be a permanent decrease in production; but the farmers began to raise more cattle on the farm when they became satisfied that this could be done profitably. In consequence, in 1917 there were 63,617,000 head of cattle, including milch cows, as against 61,803,000 in 1910.[1]

Study of all these agricultural products shows clearly that the United States can produce them in quantities more than sufficient for the needs of its own people even though, as with meats, the per capita consumption increases. One year it may have a considerable excess of wheat. Another year the corn, or maize, although rela-

[1] The Department of Agriculture, in the statistics of farm animals, estimates 45,500,000 cattle other than milch cows in 1901, and the variations in the intervening period are upward to 35,855,000 in 1914. In 1907 the price per head on the farm was $17.10; in 1911, $20.54; in 1917, $35.88. The lowest price since 1900 was $15.15 in 1905, when there were 43,669,000 head.

tively a small percentage of the crop is exported, may add appreciably to the price obtained abroad for the yield of American agriculture. Again, it may be that the tobacco crop will prove unusually large, or the prices unusually good. Occasionally, there may be a surplus of meat products. Dairy produce may be the next commodity of which considerable quantities can be spared. Taken with cotton, they go to form a varied list of exports, and in the variety is the certainty that every year the grain-fields and the cotton-plantations contribute to the value of American foreign trade.

Cotton is a farm product because the plantation is only a huge farm. It ranks second in value among the crops of the United States. It is the most important commercial crop. Approximately three fifths of the world's cotton is produced in the Southern States. The production has increased since 1840 at a rate somewhat greater than the population.[1]

Until the beginning of the Great War the proportion of the product exported ranged between sixty-five and seventy per cent. of the total production. It might be desirable to use a larger portion of the raw cotton in the domestic mills and to send it abroad in the form of manufactured goods; but this process is going on slowly, and cannot be hastened by artificial means. Assuming that a larger percentage gradually will be utilized in this manner, the United States always will have an enormous quantity for export. Cotton is the greatest raw asset in foreign trade.

A question which obtrudes itself is whether competitive production in other countries will reduce the de-

[1] "Geography of the World's Agriculture," Department of Agriculture, Washington, 1917.

mand for American cotton. To answer this question, a brief survey of the cotton areas of the world is sufficient. After the United States come India, Egypt, and the Russia that was. In the Southern Continent the principal producer is Brazil, which in some years approximates 500,000 bales. Other widely scattered regions — Japan, China, British Africa, British West Indies, the Dutch East Indies — produce relatively small quantities.

For years the Lancashire mills have had a settled policy of making themselves, if not independent, at least less dependent, on the cotton-fields of the United States. They have encouraged the growing of the staple in all of the tropical British dependencies. They have been supported in this experiment by the Imperial Government and by the various colonial governments. The result has not been encouraging.

Egypt is one of the most valuable sources of supply under the British flag. Under the system of irrigation by which the waters of the Nile have been rendered more tractable, the cotton area has been extended until the limit has been reached. Egyptian cotton is wanted by all the world, including the United States, since it is necessary in mixing with the coarser fibers; but even though the supply were to be monopolized by Great Britain, the Lancashire mills would still lack the bulk of the raw material required.

The Egyptian cultivation has been extended to the Sudan. The soil there is suitable, but the main question is one of labor, and the Sudanese do not take kindly to field labor. The black Mohammedan finds that his wives and his concubines are able to support him without contributing their energies to the cotton-field, while he himself disdains the status of an agricultural laborer. The experts who studied the soil of the Sudan for the British Government were competent, and their conclusions as to its suitability were correct; but they took no account of the labor question. The cotton production of the Sudan does not exceed 10,000 bales a year, fewer than a single section in Georgia.

India cotton has shown little improvement in quality through half a century, notwithstanding all the efforts to better it. Nor has the area, even under irrigation, materially increased. India cotton, Surat, is still essential to Manchester, but only for mixing with American cotton. The Lancashire spinner who during the Civil War interjected into a prayer for more cotton the ejaculation, "Yes, O Lord, but not Surat," could repeat that invocation to-day.

Finally, there are the British tropical colonies, the Leeward Islands and others of the West India possessions; Cyprus, in the Mediterranean; and the African dependencies. Their total production does not equal that of half a dozen counties in South Carolina.

Russian territory is the most promising source of increased cotton production outside of the United States. The cotton area is situated in Turkestan, or central Asia, and in Transcaucasia. Extensive irrigation is required in Turkestan, and the increase in the cultivatable area is slow. It will be years before Russia will produce 2,000,000 bales of cotton.

There remain the areas which, in the judgment of cotton-growers, are suitable for cultivation, but which are yet unexploited. Asia Minor is the principal one of these regions. The possibility of turning it into a huge cotton-field was one of the motives of Germany's economic penetration into Asiatic Turkey. Yet even had Germany's ambition been realized, she could not have raised enough cotton in Asia Minor to supply her own wants. Expert investigation has shown that the crop which ultimately might be produced at the most would barely equal the production of the State of Mississippi in normal years. Mississippi's production is 1,000,000 to 1,500,000 bales per year.

The conclusion is clear that cotton will continue indefinitely to be the dominant factor in the export trade of the United States that is dependent on agricultural production. Approximately, it means half a billion dollars annually.

With the certainty that the United States will continue to produce wheat and other cereal crops and cotton in excess of its own needs, and that there will be some excess of live-stock products over the domestic consumption, the importance of the farm and the cotton plantation in international commerce becomes clear. It is in the variety of these products that lies the reason for treating them as an essential element of foreign trade.

A pertinent illustration of the reflex influence of the agricultural crops on domestic prosperity when marketed abroad is found in an official report made before the United States became a belligerent.

Two things have occurred since the beginning of the European war that have awakened a lively interest in foreign trade in certain parts of this country where heretofore there had been little or no interest in commerce of that character, or in matters of international importance. Upon the outbreak of the European war the price of cotton declined enormously. It declined to a point probably below the bare cost of production, and thousands of planters in one entire section of our country found themselves not only deprived of their profits but actually facing financial ruin. Merchants and banks, that had extended credits to the growers of cotton, were confronted by an equally serious condition. The whole situation had been brought about merely because a part of the European market for cotton had suddenly been cut off. And every intelligent grower of cotton, every well-informed merchant and banker, in those districts where cotton is the staple crop, suddenly realized what foreign trade and an export market meant to them.

During the same period, but perhaps with not quite the same suddenness, another great section of the country, the wheat-producing belt, found itself in the midst of unprecedented prosperity. In spite of the fact that a bumper crop — the largest in the history of the United States — had been harvested prices went to levels heretofore unknown. And this again simply because some of the great wheat producing sections of the world had suddenly been cut off from their usual markets in western Europe, and the demand for American products consequently increased, and the western farmer, the grower of wheat, the merchant and the banker in that part of the country, found out, as never before, how important foreign trade was to them.[1]

Agriculture is the greatest of the resources of reconstruction following any war. Basic production proceeds more rapidly than with industrial rehabilitation. German thoroughness in devastating the part of France that was occupied was unparalleled in its systematic and scientific fiendishness. It made early rehabilitation of that region impracticable, and by that much reduced the reproductive capacity of the French soil for several years. But this agricultural area was relatively a small one in relation to the world's agriculture.

[1] Report of Dr. E. E. Pratt, Chief of Bureau of Foreign and Domestic Commerce, 1916.

Other war areas which suffered some destruction will be rendered reproductive sooner, because this was the ordinary military destruction and not the calculated scientific destruction. Still other areas, such as the disturbed portions of Russia, prove a substantial subtraction from normal productiveness.

Outside of Russia and central Europe, the great productive regions of the world, those of the United States, of Canada, India, Australia, and South America, suffered no interference. Instead, they enjoyed the stimulus of highly profitable markets for agricultural products.

The effect of the war measures taken by the various European governments for stimulating agricultural production cannot be determined at once. Yet it may be generally assumed that some advance has been made, although European agriculture is the systematized outgrowth of centuries and does not offer a wide field for further improvement. In the United States the effect of the measures taken is likely to be more than temporary. Coöperation in feeding the Allies, through a saving in home consumption and by the conservation of food-stuffs, through enhanced production, and through distribution regulated systematically, affords the lesson for the future. If a larger surplus of agricultural products could be assured through these methods during the war, as was done, it can be assured for a long period after the war. The production of one bushel of wheat per person in the United States in excess of the home consumption may be taken as the general measure of what may be done. The supplying of other countries with this surplus production is the function of the American farm in foreign trade. It is for the new agriculture to demonstrate the national efficiency in this field.

The American farmer is assured the coöperation of other governments in providing the information essential to raising crops. He no longer has to guess what may be happening to the harvest in some other part of the world, although it will have an important influence on his own crops. The International Institute of Agriculture, with headquarters at Rome, is the principal one of these agencies of information.

His own Government provides the American farmer with something more than information about the crops. It seeks to advise him regarding the markets for them and to assist him in the actual marketing. The Department of Agriculture expanded its domestic field by establishing market bureaus abroad. It did what other departments were doing for marketing manufactured products. The prospect before him in every way is an encouraging one.

CHAPTER III

MACHINERY AND NATIONALIZED EFFICIENCY

Standardizing European methods — England's progress in scientific effectiveness — American individualized efficiency — Machinery's place in industrialism — Development of productive power — Decrease of handicraft — Monotony of machine craft — Welfare projects — Prohibition as an economic element — England's drink problem — The industrial woman of the world — Status in the United Kingdom — Position in the United States — A world reserve factor in production.

ENGLAND'S nationalized industrial organization is the world trade factor of to-morrow. Germany's monarchically socialized system of production and distribution is the experience of yesterday. America's individualized efficiency is the realization of yesterday and the prospect of to-morrow. France's industrial reorganization is the hope of the future. What passed with the passing of arms and what remains, what lasting changes in economic systems may come out of nationalized activities, can be determined in some degree by a résumé of the measures that were adopted for nationalizing the individual factors in trade and industry, finance and transportation, in order to make them more efficient war machines.

The British motive, in its immediate phase, was by increasing productivity to overcome the devastation caused by war. Science was brought into more intimate touch with industry by the closer association that was established between the laboratory and the factory.

Various research bodies, such as the General Advisory Council, with its standing committees on engineering, metallurgy, and mining, and the Chemical Advisory Council coöperated with the Government in the primary investigation for the speeding up of industry. That their work assured permanently greater productive capacity and greater economy in production may be accepted without cataloguing the several activities.

The field of accomplishment is too broad for detailed survey. In rapid review it may be said that musty factory traditions disappeared, that collective efficiency supplanted them, that the use of automatic machinery became the means of quantitative production, that industrial chemistry made striking advances as evidenced by an increased productiveness of fifteen hundred per cent. for sulphuric acid, and that all processes of production were improved until they approximated the scientific effectiveness which is the ultimate economic factor.

In its widest sense it may be said that British industrial productiveness was standardized. When American enterprise, in the form of an American match company, in one of its militant moods, obtained control of its English competitor, the conservative Britons gasped at the swiftness with which the whole plant and its expensive equipment were scrapped in order that modernized machinery might be installed. The hand had given way to the machine in making sulphur matches, and the crude and heavy appliances in use by the English manufacturers were discarded overnight for standardized match-making machinery. Such an instance would now be no cause of astonishment.

The standardization which was so marked a feature of the military methods, nevertheless, was not wholly a consequence of the war. It was more the swift development of processes upon which Europe already had entered. Before hostilities opened, European countries had begun to compete with the United States in the use of improved machinery. Germany, quick to appropriate and apply the inventions of others, had placed her basic industries on what was essentially an American machinery foundation. In the case of machine tools she had paid a high price for the privilege of transferring bodily an American machine-tool industry, something in which the United States admittedly led the world. France was transforming her artistic manufactures into greater productiveness through the adoption of improved mechanical appliances and the integration of factory plants. England, while foremost in the manufacture of textile and other forms of machinery with which to equip foreign industrial plants, was laggard in respect to some of her own industries; but she was awakening.

Standardization in the United States had been an illustration of individualized rather than of nationalized efficiency. It had come to be the matter-of-course factor in all phases of industrial production. Along with it was the efficiency developed in the single factory and the efficiency obtained through the integration of groups of factory plants. Efficiency experts and efficiency engineers, to men actually engaged in industry, had become a byword. It was said humorously that they caused no real loss, and that the plant which employed them continued to produce about as cheaply as before they took temporary charge of it. This was the American way of confessing reaction from exaggerated expectations, but there was no disposition to deny the economies effected by the Taylor System. The total of separate factories in which these economies were realized made an appreciable contribution to the national efficiency in production.

Imperious war necessities showed deficiencies in the means of mobilizing industry, but not in the effectiveness of their production. The initiative faculty, which is the dominant American characteristic, never was brought out more strongly. Standardization made further advances. Industrial chemistry literally leaped forward, so that toxic war gases, as an illustration, became an instrument of peaceful industry as soon as the war was ended.

From the experience of England and the other European belligerents, and from the example of the United States, the conclusion is drawn that in peace activities machinery occupies a more advanced place in production. The Great War merely pushed forward and made more general industrial processes that already were in operation. It gave affirmative evidence that the characteristic feature of modern industrialism is quantity production.

Ferrero, the Italian historian, who has reveled in comparing the industrialism of the United States with the civilization of Rome, in an imaginative sentence describes the hand of man as a living and mind-inspired machine. Yet the hand, as the instrument of industrial progress, however beautiful its manifestations may be, slackens and withers before the multiple mechanism which the human brain has devised.

The hand loom of India, once the sustaining force of a vast population, in vain seeks rehabilitation in a nationalistic revival of the spirit of India. The loom is gone, and with it other cottage employments. The textile industry of the Hindus nevertheless becomes an important element of national progress, because the cotton mill, in replacing the hand loom, has vastly increased productiveness. The blacksmith's forge and the simple foundry the world over are absorbed by machine-driven iron and steel mills.

The development of productive power in modern society through the use of machinery is a fascinating theme and enters into the realm of imaginative economics. Nearly a century ago Henry Clay, in advocating the policy of protection, gave this illustration of industrial progress in England:

> The combined force of machinery employed in manufacturing in the United States equals the labor of how many men? In 1820 in Great Britain it equaled the labor of one million men. The aggregate labor of individuals employed equals the united labor of two million. The machine labor is to manual labor as one hundred to two.

Ralph Waldo Emerson, a third of a century after Henry Clay, said that the power of machinery in the mills of Great Britain had been computed to be equal to six hundred million men, one man being able, by the aid of steam, to do the work which required two hundred and fifty men to accomplish fifty years earlier.

Michael Chevalier, the French economist, in his "Course of Political Economy," in 1841, made these estimates:

> Manufactures of iron increase in productive power in five years as one to twenty-five or thirty; flour, since Homer's day, one to one hundred and forty-four; cotton fabrics in seventy years as one to three thousand three hundred and twenty. America, in transportation of goods, as one to eleven thousand five hundred.

This is a striking view of what one man could do in the Homeric era, and what one man could accomplish towards the middle of the nineteenth century with all the facilities of production that had then been devised. The development of productiveness through machinery and standardization in the last seventy-five years makes Chevalier's estimate almost a medieval one.

It is in the United States that in the past the use of machinery has been the most daring and most far-reaching in its influence on economic development. The census of hand-made goods taken from time to time is the living evidence of this development. But henceforth the United States is not to be on a much higher plane than other countries in the use of machinery. It will have to meet conditions that they have to meet.

Meditative and moralizing economists voice their regret over the loss to the artistic side of civilization through this use of machinery, but the endless process goes on from handicraft to machine craft, through the temporary distress of workers caused by loss of employment due to labor-saving machinery, until there is the widened employment resulting from labor-making machinery. The moralizing economists however when they deplore the depressing influence of the monotony of machine labor on the human organism, have a case in court which is not argued away by the mere citation of physical comforts through increased productiveness.

There are subtractive factors which lessen the value of machine production. The principal one is the reaction of the monotony of machine labor on the individual worker, and the worker's discontent merging into group discontent and reacting in social unrest. The war has advanced the status of machinery in productiveness, and as an element of the efficiency of the several countries also has accentuated the inevitable condition which goes with it. Fortunately, there has been recognition of the need of meeting these conditions.

On the part of corporations and individual employers it has come in the definite measures for recreation, for social betterment, and for disassociating the laborer from the monotony of his daily life. On the part of governments it has germinated new plans for regulating the conditions of labor and has given fresh impetus to half-considered and only partly effective policies of the past in relation to bettering the conditions of actual employment. Insurance for the sick and against unemployment, old-age pensions, workmen's compensation and employers' liability laws, and a whole series of welfare laws have their roots in the desire to insure the mind as well as the body of the laborer against distress. The theory is that if his mind be taken off the monotony of the daily grind, both mind and body will be healthful.

Great Britain, as a supplemental means of nationalized efficiency, has taken the leadership in these measures, especially in provisions for housing the workers and for safeguarding their health. This in reality is safeguarding the national health. If the measures become as effective as hoped, they will place England on something like an equality with the United States.

There are interrogatory signals, however, in these measures of nationalized efficiency. One is a beckoning inquiry as to the drink habit. No one who has been in a British industrial section — Birmingham or Sheffield on a Saturday night, or the Potteries on a Monday morning — can doubt the economic effect of the drink habit on the efficiency of a manufacturing country such as Great Britain. The war enabled some progress in temperance to be made. Strict control of the liquor traffic as a part of the Defense of the Realm Act proved more effective than the advocacy of temperance legislation on moral grounds had proved in peace-times.

During peace, tradition, vested rights, personal liberty, all made the extension of governmental authority, in lowering the consumption of alcoholic liquors, an exceedingly difficult problem for whatever ministry was courageous enough to attempt its solution. The Liberal Ministry of Asquith and Lloyd George in 1908 and 1909 found how great the difficulty was in securing the enactment of very moderate measures to reduce the number of public houses and limit the evil of women drinking in public places.

Nor did the example of royalty permeate, as in many other instances, through the aristocracy and the middle classes down to the working classes. King George, at the outbreak of hostilities, announced the abstinence of the royal family from liquors; but the royal example was not widely followed. What was accomplished was through direct governmental action. This was partly based on the necessity of conserving the materials of beverages for war uses. There was an actual decrease in consumption.[1]

The United Kingdom's annual drink bill, or the statistics of the number of gallons of beer and whisky con-

[1] The total consumption of absolute alcohol in 1917 was approximately 45,000,000 gallons, as compared with 73,000,000 in 1916, 81,000,000 in 1915, 89,000,000 in 1914, and 92,000,000 in 1913. Of this quantity 73.6 per cent. was consumed as beer, 23.6 per cent. as spirits, and 2.8 per cent. as wine.— Report of George B. Wilson, Secretary of The United Kingdom Alliance.

sumed yearly by each person, was far from telling the full story of the effect on industrial production. In the same way the figures showing decreased consumption during and following the war may not tell the full tale of the labor effectiveness. But it was unquestionably a more sober industrial England that emerged from the war.

The United Kingdom must take note of what its principal industrial and commercial competitor does. The United States did not go on a prohibition footing as a direct consequence of the war. This only caused the pace to be accelerated. The advantage taken of war necessities by the prohibition advocates may have been unfair, but the result was obtained merely a few years earlier than it would have been achieved otherwise. What the war-prohibition legislation did was to accentuate that prohibition had acquired its irresistible force because of the recognition of its economic value.

Moral suasion had done something toward diminishing drunkenness and the industrial inefficiency resulting therefrom. Advocated through three quarters of a century, it had done little more than this. When the vast waste caused by alcohol came to be recognized, when manufacturing corporations and labor organizations began to advocate prohibition on economic grounds, the movement gained rapid headway. It may be that those who believed in the prohibition of whisky and in the indulgence in beer and light wines were sound in their arguments, but these arguments proved unconvincing to the majority of people in the United States. Prohibition is because this majority realizes its economic value. The damp climate of England may prove a sufficient argument for state control of the liquor industry in the United Kingdom rather than for outright prohibition, but this, too, will be an admitted factor in diminishing the drink habit, or else it will not prevail as a policy. It must justify itself as a means of increasing productiveness, as a measure of nationalizing the efficiency of the British working-man.[1]

Common to all the fighting nations was the woman worker. Thus was evolved the industrial woman of the world. Following the war, the question arises, Has there developed the woman artisan as a new factor in production; and if so, what will be her relation to the efficiency in the productiveness of the nation? The thought in the background is that women must be taken on a parallel with the efficiency of men workers.

The women coal-heavers of Shanghai or Port Said or Jamaica, who fill the ship-bunkers, do not think that their work is a prerogative of the male sex. The women burden-bearers of Tibet, who carry heavy loads up the steep mountain-passes, do not look on that work as masculine. The Indian women of Tehuantepec, who take to themselves the major part of the physical labor, have no conception that there is anything unique in their occupation. The business women in France never have allowed it to be assumed that they were usurping the places of men. No more have the business women and the stenographers and typists in the United States permitted such an assumption. By a gradual process it had come to be taken as a matter of course that dress-making, millinery, and school teaching were not the only callings open to women.

[1] For a discouraging view of the temperance prospects in the United Kingdom see "Reforming the Liquor Trade in Great Britain," by a British Liberal, *Atlantic Monthly*, June, 1919.

The war made some changes and caused innovations startling to ossified communities. In England and in the Continental countries, after hostilities began, there was an increase in the number of women employed in field labor, but there was nothing novel about this labor, especially on the Continent. When women tram-conductors and mail-carriers appeared in Nottingham, Leeds, and Bradford, it was a matter of passing wonder, for those were the early days of the war. But women conductors had been employed for years on the tramways of Santiago and Valparaiso in Chile, and many women were already licensed taxicab-drivers in Paris. In the United States the appearance of women as conductors on the street railways merely caused the quick addition of a new word, conductorette, to the popular vocabulary.

The permanence, or temporariness, of these occupations has little economic significance. The real question relates to the evolution of the industrial woman of the world through employment in the munitions factories and in kindred industries. Within a few months after the war began the work in the munitions factories of England had been so standardized that it did not differ greatly from work in the textile factories, in which women always had been employed. In 1918, the high pressure period, there were 1,250,000 women replacing men in the industrial organization in the United Kingdom, and of these 800,000 were munitions workers.

In the early stage of the war political economy took rather doleful note of the psychological effect of this sudden increase of women in employment, and also took notice of the effect on the national spending habit. The cockney woman, whose quick wealth of wages went for new hats and dresses and all sorts of feminine finery, instead of going into the postal savings-bank, caused grave apprehensions. Political economy could not see in these extravagances the starved soul struggling to the light. But gradually this situation adjusted itself. The woman munition-worker became a factor in consumption and production with living expenses just like the man worker.

In the third year of the war a summary of an authoritative character was made regarding the industrial position of women in the United Kingdom. It was noted that the process of relaxing trade-union restrictions which interfered with the employment of women had gone on at an accelerated rate; that they had entered innumerable occupations theretofore closed to them, for many of which they were supposed to be unfitted, but in which they were making good. It was also noted that in industrial occupations where physical strength was required they were at a disadvantage, and that in the munitions trades operations had been subdivided, and that a woman did only one, or at the most two or three parts of a process, instead of performing the whole complex operation. In this subdivided work they had attained great efficiency, and had proved that they had inherent ability to handle skillfully tools and machinery.[1]

In the United States no census of employed women was made during the war. Following the armistice, it was estimated by the United States Employment Bureau that there were 12,500,000 women at work in industries; that is, females in gainful occupations ten

[1] "Effect of the War upon the Employment of Women in England," by Mary Conyngton, *Monthly Review* of the U. S. Bureau of Labor Statistics, April, 1918.

years of age and over, without regard to those who entered industry because of temporary war conditions. Scattered evidence was said to indicate that the number was much smaller than was generally supposed, and that large numbers of women employed in the war industries had been transferred from other occupations. It was assumed that after the war most of these women would naturally go back to their old trades. The same authority quoted an organization representing employers to the effect that in the last twenty-five years the employment of women in manufacturing had increased more rapidly than that of men, and the opinion was expressed that the expansion of their activities at this time may be regarded not as a radical innovation, but rather as an acceleration of a normal development.

These observations would seem to put the industrial woman of the United States on a somewhat different footing from her sister in Europe, where the war needs did develop virtually a new class of industrial women workers who had been without previous experience in manufactures.

The British Labor Mission which visited the United States after the war gave high testimony to the degree of efficiency of women industrial workers. The comparative merits of men and women engaged in such lines as tool-making and delicate munition works calling for the utmost precision was summed up in this way: in fields where an all-around knowledge was required, and capacity for grasping many aspects of a problem, men still held preëminence; but in many specialties requiring a high degree of efficiency in a restricted field women had shown themselves better able to withstand the monotony than men.

This testimony is especially important in view of the effect of monotony through the use of machinery on workers generally. It seems to assure that while the woman mechanic numerically may not immediately become an important factor in industrial production, she is a reserve industrial resource, and in the employments where adaptability to machinery is necessary she is likely to measure up to the requirements. It is probable that her increased participation in mechanical labor will give an impetus to welfare legislation, and in the sense that this influences efficiency in production, there will be increased productiveness. Yet, taking the industrial nations of the world as a whole, it has not been demonstrated that the woman mechanic will displace the woman of the home, or that marriage and motherhood will cease to be her function in the social organization. The industrial woman of the world, in the final determination, may be regarded as the great reserve factor in productiveness to be drawn on as the needs of industry may demand. Her employment means no lessening of the nationalized efficiency in any country.

CHAPTER IV

RAW MATERIALS

Iron the blood of industrial nations — Ore resources of the world — Distribution in the United States — Coal reserves — Sources of manganese — Copper and other industrial metals — Petroleum as fuel — Where the oil-fields lie — Water-power as motive force — Raw materials of textiles — Great Britain's basis of iron and steel industries — Geographical advantages — Points in competition with the United States — What Lorraine iron and Sarre coal mean to France.

"IRON," declared Richard Cobden, "is the blood of an industrial nation." How this blood shall circulate is one of the forceful questions of the new industrial era. Food for industry is as essential as food for peoples. Its primary possession is the key to the future status of the several countries in their world trade.

The world has more than one hundred and twenty-three billion tons of potential iron ore resources capable of conversion into more than fifty billion tons of iron. It has approximately twenty-two and a half billion tons in existing deposits more or less developed, the equivalent of approximately ten billion tons of raw iron.[1]

The resounding statement that the United States has ore in reserve to last a thousand years is sufficiently satisfying, but is somewhat vague. More definite is the statement that it possesses nearly one fifth of these developed ore deposits, or in excess of four billion two

[1] "Iron Ore Resources of the World." An inquiry made upon the initiative of the executive committee of the XIth International Geological Congress, Stockholm, 1910.

hundred and fifty million tons, which is capable of conversion into two billion three hundred million tons of iron. The German Empire, as it was constituted at the beginning of the Great War, with Luxemburg included, had a fraction less than three billion nine hundred million ore tons, equivalent to one billion three hundred sixty million tons of raw iron. France, as then made up geographically, had three billion three hundred million tons of ore, equal to one billion one hundred and forty million tons of iron. The United Kingdom has one billion three hundred million tons of ore, capable of conversion into four hundred and fifty-five million tons of iron. Spain has seven hundred and eleven million tons of ore, equivalent to three hundred and fifty million tons of iron.

In the New World, Cuba and Newfoundland are minor reserves. The ore-beds of Brazil and Chile in South America, while enormous, furnish only conjectures of their possibilities. China is the reserve for Asia.

The Lake Superior region in years of average activity is drawn on for from eighty-one to eighty-five per cent. of the iron ore utilized in the domestic industries of the United States. In dull years the production drops below forty million tons, and in busy years as easily mounts to sixty-five million tons. The Southeastern States, from Maine to Alabama, provide from ten to fourteen per cent. of the normal production, and the Northeastern States a fraction under four per cent. The Rocky Mountain region and the Pacific slope provide about one per cent. Thus it may be said that the iron ore resources, although unequally distributed, exist throughout the whole country.

Coal reserves throughout the entire globe amount to considerably more than seven thousand billion tons.[1]

The total world production annually during peace is a billion and a quarter tons.

The United States produces approximately five hundred million tons. Its coal deposits may be exhausted in two hundred years, as alarmist scientists sometimes assert, or they may be conserved to last five hundred years; but so far as the vision of man extends, their prospective life is sufficient to convert iron ore into iron and steel products until other fuel is found to replace them. The industrial area between Pittsburgh and Cleveland is the story of the meeting of the iron ore of the Great Lakes with the coal of Ohio, West Virginia, and Pennsylvania. Birmingham's smoky atmosphere tells where the ore and coal lie in twin beds. Colorado's iron and steel industry is the chapter which describes the advantageous assemblage of the ore and coal of the Rocky Mountain region. The vast variety of iron and steel products, which are the hall-mark of industrial progress in this era of international commerce, therefore find the United States fully supplied with the two principal primary elements that enter into their production.

There are also supplemental sources of supply. United States capitalists control the Cuban ore-fields, and draw on them as needed. Newfoundland's iron ore deposits likewise are available. Chile's iron-beds have been opened by American capital, and are now supplying blast-furnaces in Pennsylvania and Maryland. When the time comes that Brazil's ore reserves are needed they are as accessible to the United States as

[1] Toronto Geological Congress, 1912. The exact figures in the monograph on this subject were 7,397,533,000,000 tons.

to Europe. Such small quantities of Swedish ore and of Spanish ore as are wanted are easily obtained, but the United States could draw exclusively on the ore deposits of the New World, and its iron and steel industry be absolutely independent of Europe.

This is shown in the sources of manganese. This essential element is to be obtained from Brazil in quantities sufficient to render that from the Caucasus and from India secondary, as has been demonstrated during the war. The Caucasian region of Russia is good for an annual production ranging from 1,000,000 to 1,500,000 tons. India may reach 1,000,000 tons under the incentive of extraordinary demand, but an average production of 600,000 tons is all that may be looked for in normal circumstances. The Brazilian production increased from 150,000 tons in 1913 to 400,000 tons in 1917. It is capable of much greater increase.

In supplying iron and steel products in world trade, the United States, therefore, is not confronted with peril from lack of raw materials. The question is, instead, one that relates to the conditions of competition with Europe in the home market and in neutral territory. Some shifting of the domestic industries from one locality to another may occur, due to the relative proportion of fuel and freight charges. But America's share in the iron and steel trade of the world as a whole will be regulated principally by conditions in the Pittsburgh district, with freight charges to the seaboard having a marked influence in determining prices at which the products may be sold in foreign countries.

In the wide range of the newer industries that are controlling factors in world trade, copper, after iron ore, enters more largely into manufactured articles than does any other raw material. The normal world production is in excess of a million long tons, and of this quantity the United States supplies more than one half. In 1913, before the war, the total world production was two billion two hundred million pounds, and of this amount the United States produced one billion two hundred and twenty-five million pounds. The production is more than enough for use in the electrical and other industries, and leaves a surplus for export; but there is an economic convenience in exporting part of the domestic product and in importing copper from other countries.

Copper ore reserves available to the United States are found in Mexico, in Canada, and in South America. The Mexican deposits, for the most part, lie close to the boundary-line, as in the State of Sonora, and may be regarded by the United States as domestic resources. Canada may be looked on in the same way as Mexico, since the mines of British Columbia are contiguous. The South American deposits are principally in Peru and Chile. The majority of the mines there are owned by North American capital. The bulk of the output finds a convenient transportation route through the Panama Canal.

The zinc resources of the United States are abundant enough for all manufacturing purposes. From 1911 to 1915 the production increased from 272,000 to 458,000 short tons yearly. An annual output of half a million tons is easily obtained, provided the demand requires it. Lead exceeds 500,000 tons of annual production. The output rose from 392,000 tons in 1911 to 507,000 tons in 1915. The reserve resources of lead are extensive.

Tin is one of the minerals for which the United States must look to other countries. When American capitalists erected large smelters on the New Jersey coast they forgot about the tin-plate industry in England. They had looked to the Malay Straits Settlement for their raw material, but the British manufacturers persuaded the Straits Government to put an export tax on tin exported to countries not in the British Empire. Consequently, the New Jersey smelters remained idle until the Great War. Then an arrangement was made by which the raw material was obtained from Bolivia, and the smelters were put into operation. The Bolivian Government imposes an export tax, but it is not discriminatory. Bolivia produces one fifth of the world's tin.

The future of petroleum as fuel is not fully determined, but the tendency is to increase its use for industrial purposes. The United States to-day is the greatest producer of oil in the world, having far outstripped Russia. Mineral oils furnish one of the principal export commodities. Should there be a strong demand for the consumption of larger quantities of fuel oil in the United States, the exports, through economic causes, would be reduced automatically. The setting aside of extensive oil areas by the United States Government as naval reserves, and the tendency of naval authorities to exaggerate the claims of the Navy of the future, by establishing a government monopoly, though an industrial drawback is not likely seriously to interfere with production. Oil is a raw resource of great value to industries, and while the needs of the Navy will not be neglected, there is no reason to suppose that public policy will permit large productive areas to be reserved indefinitely.

The petroleum production of the United States, since 1911, has ranged from 220,500,000 barrels upward. Before the entrance of the United States into the Great War the Navy Department had made an estimate of its needs, based on the change from coal-burning to oil-burning boilers, and the impracticability of changing back from oil to coal. The experience of war demonstrated the utility of oil as power and speed for the battle-cruisers, and also afforded some criterion of what are likely to be the real needs in the future. The position taken by the Navy Department has been that the oil resources on the public lands should be kept as a reserve, and the Government, in furtherance of this view, from time to time has set aside naval reserves in California, Utah, Colorado, and Wyoming. It is still a debatable question how much petroleum should be kept out of commercial and industrial use for naval reserve purposes; but with the power of the Government to commandeer oil supplies during war, this matter does not seem incapable of solution.

The real problem was thought to be whether the petroleum supply is in danger not of exhaustion, but of absorption in one form of industry, namely, gasolene for automobiles. Improved methods of manufacture; new discoveries, such as the Rittman Process; the possibility of combining benzol and alcohol; the prospect of using industrial alcohol in the working of internal-combustion engines, and the abundant sources from which this product may be obtained — all afford relief from the fear that the United States may fall back in its manufacturing development through lack of petroleum for fuel. Moreover, it has the Mexican oil-fields at Tampico to depend on as auxiliary sources of supply.

The greatest means of relief, however, was a war development. It was the advance made in the use of industrial alcohol as fuel by providing alcogas, a substitute, for gasolene. The full value of this substitute may not be realized for many years, but there is no question that it possesses a real fuel value.

Reduced to statistics, which are estimates and not scientific propositions, the petroleum resources of the world are approximately one billion six hundred million metric tons, with possible reserves of three billion one hundred million metric tons. This brings the total petroleum deposits up to five billion seven hundred million metric tons. The United States has a probable possession of nine hundred and thirty-seven million tons, of which probably six hundred and twenty-six million tons are available commercially.

The possession of so large a proportion of the petroleum deposits does not, however, assure the United States predominance in this industry. During the war an official publication sounded a note of mild alarm over the possibility that the control of the world's supply would pass into foreign hands. It was, therefore, urged that the United States should take measures to insure itself full supplies.[1]

Water-power transformed into electrical energy is another raw material, as much a raw fuel as coal, which the United States possesses in abundance. Modern industrial authorities are just beginning to estimate economic efficiency in terms of boilers and engines,— that is of horse-power,— and that which may be obtained from the utilization of water-power is

[1] "Petroleum Resources of the United States," by M. L. Requa, consulting engineer of the Bureau of Mines, Washington, 1916.

placed on the same plane as that of the boilers and engines which are driven by steam from coal. When the German Army seized Belgium, and followed this seizure with the occupation of a large region of France, the military authorities acted on the knowledge that the index of the industrial activity of a country is found in the amount of horse-power employed as motive power and the number of boilers installed in manufacturing plants. A census was taken of the number of boilers and the horse-power in the area occupied by the German troops. Very little of this was developed from water-power, but the industrial engineers of the Allies, taking their cue, began to estimate how the water-power to be obtained from the Alps and the Apennines could make up for the lack of fuel from which Italy suffered. The development of this water-power proved a useful service in Italy's munition manufactures.

A British economist, in a mid-war discussion of Great Britain's presumed industrial supremacy after the war, laid stress upon the horse-power of the British Empire, with special reference to water-power.[1]

Canada is a principal source of this power. The estimate is of approximately eighteen million water horse-power available in the dominion. According to the dominion Census Bureau there was in 1917 a total developed water-power capacity of two million three hundred and five thousand horse-power.

The United States, on the authority of the Geological Survey, has available sixty-one million six hundred and seventy-eight thousand water horse-power. In the congressional debates concerning the legislation for con-

[1] "Britain's Coming Industrial Supremacy," by J. Ellis Barker, *Nineteenth Century*, October, 1916.

serving and utilizing this power, it was declared that all but five million three hundred thousand horse-power was running to waste. The truth is that the United States has a vast reserve of raw material in this potential hydro-electric energy, and that the water-power may fairly be classed with petroleum and coal as one of the primary elements of production. It has the additional advantage that it cannot be exported except in the form of manufactured commodities for the production of which it has supplied the driving force.

Raw materials of textile industries are not the natural monopoly of any nation. The United States, with its preponderant cotton production, comes closer to a textile monopoly than any other country. In the matter of wool it can claim no such preponderance. Out of an average world production of two billion eight hundred million pounds of wool annually, the United States cannot account for more than three hundred and fifty million pounds. Moreover, there is the need of the coarser grade wools grown in other countries for mixture. However, the whole world is open to the United States as much as to other manufacturing nations. The woolen industry is not one of rapid or of extensive development, and it is never likely to be a very prominent factor in the foreign trade; but in the fabrics which enter into the export trade of the world the United States at least has a basic supply of raw wool of its own production. During the war large quantities of South-American wool were absorbed for manufacturing purposes, and this absorption is not likely to cease.

Great Britain's raw material resources are to be viewed not only as those of the United Kingdom, but as those of the British Empire. Nevertheless, geography interposes some obstacles which political ties cannot overcome. In the great basic raw resources of iron and coal the United Kingdom is to be analyzed with reference to European geography, since the overseas colonies are deficient in these primary products, and if they were not, the transportation factor is in the way.

The United Kingdom, according to the authority previously quoted, has one billion three hundred million tons of potential ore, equal to four hundred and fifty-five millions tons of raw iron. Approximately three hundred million tons of coal are mined annually. The geographical relation of the iron ore and coal deposits of the United Kingdom is the key to her iron and steel industries, to the shipbuilding at Newcastle, Glasgow, and Liverpool, to Birmingham's basic products, and to Sheffield's highly specialized articles. The soft ore of Sweden and the ore of Spain are easily accessible, and supplement the domestic supply. The manganese of India and of Brazil is as available for the United Kingdom as for the United States. There is also the tin of Cornwall, supplemented, colonially, by that of Australia and the Malay Straits.

The United Kingdom does not require to import a single ton of coal for her iron and steel and collateral industries. With the ores accessible, she has no fears of a lack of raw materials. So far as concerns the manufacture of these raw materials into finished and semi-finished articles, she is in a position at least as favorable as the United States.

Andrew Carnegie, in his testimony before the Ways and Means Committee when the tariff legislation of 1909 was being formulated, declared that Great Britain was badly situated in regard to iron-ore supplies, and that the country had reached the apex of her manufacturing powers. According to him, Great Britain's iron-ore supplies were rapidly vanishing.

This view was commented on at the time in England, and against it was cited a report of the Swedish Geological Survey, which said that there were not fewer than a thousand million tons of iron ore left in the existing workable ore-fields. England was then importing from one third to one half as much ore as she mined. Spain was the chief source of supply, and after that Sweden.

Mr. Carnegie's prophecy was in substance that in six years England's iron- and steel-making resources would be as much impaired as would be those of the United States in a hundred years. The period fixed by Mr. Carnegie for this calamity ended in the midst of the Great War. England was then drawing tremendously on her iron-ore and coal resources for munitions-making, but the ore reserves gave no signs of impairment.

A sanguine view of England's position, due to the possession of the raw materials which are the basis of iron and steel industries, was taken by a high-class technical journal in an article published at the threshold of 1918.[1]

A condensation of this article was to the effect that the future supremacy in iron and steel and engineering export trade, which is the world's most important group of manufactures, is between the United States and the United Kingdom. In thirty years the world's per capita consumption of the group increased 150 per cent. The United States, Germany, and the United Kingdom sup-

[1] *Engineering*, London, December 28, 1917.

plied eighty-five per cent. of the world's iron and steel and engineering products. In the United States the iron ore is one thousand miles from the coal-mines, and the iron and steel works are from four hundred to five hundred miles from seaboard. British ore and coal areas are compact. Machinery on large scale production is a feature of the industry in the United States. The United Kingdom's great advantage is her coal and iron supplies, her manufacturing plants and shipping ports side by side, and her unique transport facilities.

It is unquestionable that England can lay down her finished products for export at seaboard with smaller transportation charges than can the United States. Other factors enter into competitive sales in the world's markets, but in the means of assembling the raw materials of the iron and steel industry and of placing the manufactured commodities afloat, it is touch and go between the United Kingdom and the United States.

England has no copper, and but little can be supplied from her colonies. The world's supply, however, is as open to her as it was to Germany, and she is in a position to develop her electrical industries, although in the past she has not done this to the degree of becoming a rival of Germany and the United States in copper products.

In textiles the United Kingdom, as has been explained in a previous chapter, is not in a position to free herself from dependence on the raw cotton of the United States, notwithstanding India and Egypt. But the lack of this essential raw material is partly compensated by the development from generation to generation of skilled textile workers.

In the woolen industry England has both raw materials and inherited industrial capacity. Her own sheep furnish a not inconsiderable supply of raw wool, although the common impression is that England grows only mutton sheep. With Australia, and particularly New South Wales, India, and South Africa supplementing the domestic supply of wool, England can look with complacency on the efforts of other manufacturing countries to obtain raw wool. Eighty per cent. of what she needs is grown under the British flag.

France, as a consequence of the Great War, has come into her own as the mistress of the raw materials of iron and steel industry. With Lorraine regained, she has approximately five billion six hundred and thirty million tons of potential iron ore reserves. The production of the Lorraine districts that were held by Germany exceeded twenty-one million tons annually. The Longwy-Brie district, toward which the Teutonic claws were stretched in order to clutch an economic resource of incalculable value, produced approximately twenty million tons. Normandy and other parts of France added relatively two million tons. Taken with Lorraine, the French iron-ore production is normally forty-three million tons, with at least two million tons more available by easy transportation across the Mediterranean from Tunis and Algeria. This places France second only to the United States in the production of iron ore. This is an economic event of vast significance, although its full purport may not be made immediately discernible by the rapid development of iron and steel industry. This is because of the lack of workers. But the workers will come in time.

French coal always has been an industrial deficit. Germany had the coal, and France in normal times was compelled to import annually twenty-two million tons and upward. This deficiency is now cured. Lorraine is capable of a coal production of at least four million tons annually. The Sarre Basin, which henceforth economically is a part of France, means ample coal for French industries, though it is not of the best coking quality.

The possession of these raw materials by England and France are an index of the future trade of the world. They are also a warning against over-confidence. They do not, however, diminish the knowledge that the United States possesses in abundance the primary raw materials which, turned into manufactured products, constitute the bulk of the world's commerce.

CHAPTER V

THE DIPLOMACY OF COMMERCE

The shipwrecked Yankee skipper and mutual bargaining — The celebrated Methuen Treaty — Objects sought by England and by Portugal — Adam Smith's objections — Disraeli's definition of trade diplomacy — Palmerston on the qualities of negotiators — Tariffs modified by political motives — Concessions by Japan and France to Great Britain — Commercial diplomacy in Europe in 1914 — Trade spheres and rapprochements — After the war — Functions of trade diplomacy under the new conditions.

ELDERLY readers may recall a droll chapter in James de Mille's "The Dodge Club." It is of a Yankee merchant shipmaster whose vessel, returning from Hong-Kong, is wrecked in mid-ocean. He keeps afloat on the carcass of a whale, where a passing New England vessel finds him comfortably quartered, philosophically awaiting a hail. The rescuing skipper boards the whale, and the shipwrecked merchant shows him over it as if it were a parcel of floating real estate. The shipwrecked merchant asks:

"Would you like to buy a whale?"

"Wa'al, yes, I don't mind. I am in that line myself."

"What'll you give for it?"

"What'll you take for it?"

"What'll you give?"

"Take?"

"Give?"

The dialogue continues in this manner for half an hour, the shipwrecked merchant remarking that he is waiting for a whaling-fleet to come along and pay him what his whale is worth, while the rescuing skipper explains that this is not likely, since he is out of the course of the whalers. Then the bargaining comes closer to a trade. The skipper proffers twenty-five per cent. of the oil after it is barreled, barrels and all, and explains to the owner of the whale carcass that this is a mutually advantageous proffer, since it will save a voyage to both. It requires the exercise of diplomacy, but both finally agree that this is a mutually advantageous bargain, and the contract is closed. It is in accord with the formula of trade evolved by individual men trading in their private capacity.

The diplomatic formula of trade intercourse between nations was evolved when they began to regulate their relations by treaties of amity and commerce, or commerce and navigation. With the development of their material resources, their economic policies became more distinctly molded by what they believed to be their national interests, and their commercial relations became more intricate of solution on account of the necessity of reconciling and adjusting their interests to the interests of other nations.

Trade relations of the European countries during the epoch when commercial enterprise began to adventure abroad were regulated on the assumption of securing benefits at the expense of non-participating countries. Colonial trade was so completely a monopoly of the mother country, and was so fully recognized as such, that it rarely entered into the negotiation of commercial treaties. The model of these conventions in the eighteenth century was the celebrated Methuen Treaty, negotiated in 1703 by the British Minister of that name accredited to Portugal. The text is blunt, and affords refreshingly frank reading in contrast with the stilted phraseology of ordinary treaties of friendship and commerce, or of special commercial conventions, with their long preambles and their high-sounding declarations.

> Art. I. His Sacred Royal Majesty of Portugal, promises, both in his own name, and that of his successors, to admit, forever hereafter, into Portugal, the woolen cloths, and the rest of the woolen manufactures of the British, as was the custom, till they were prohibited by the law; nevertheless upon this condition:
>
> Art. II. That is to say, that Her Sacred Royal Majesty of Great Britain shall, in her own name, and that of her successors, be obliged, forever hereafter to admit the wines of the grape of Portugal into Great Britain: so that at no time whether there shall be peace or war between the kingdoms of Britain and France, anything more shall be demanded for these wines by the name of custom or duty, or by whatsoever other title, directly or indirectly, whether they shall be imported into Great Britain in pipes or hogsheads, or other casks, than what shall be demanded for the like quantity or measure of French wine, deducting or abating a third part of the custom or duty. But if at any time this deduction or abatement of customs, which is to be made as aforesaid, shall in any manner be attempted and prejudiced, it shall be just and lawful for His Sacred Royal Majesty of Portugal, again to prohibit the woolen cloths, and the rest of the British woolen manufactures.

There was a political purpose in this treaty. It was to strengthen the ties between England and Portugal, and the relationship thus established has continued to the present day.

But the trade interest was the principal motive. Each country sought definite commercial advantages by means of an exclusive bargain to the specified disadvantage of reason, have characterized it as the bulwark of protection in accordance with nationalistic policies. It has been described as a device for lowering high tariffs, and, under the European practice, that undoubtedly has been the effect; but there also has been the preliminary practice of enacting high protective duties as the basis for concessions. The results of the general practice, however, are more important than the claims of the controversalists. Under the unconditional interpretation of the favored-nation treatment, with frequent modifications, the European nations in the course of half a century secured uniformity in commercial intercourse by developing a system of conventional tariffs.

All the leading commercial nations with the exception of Great Britain, which was adhering to a purely revenue tariff, at the outbreak of the Great War had adopted the double tariff system on the basis of maximum and minimum schedules. Germany and France were the exponents of the different applications given to the system through these two sets of schedules. German policy assumed the expansion of exports as the primary and principal national necessity. It assumed comparative safety from foreign competition. The French system, on the contrary, assumed primarily the necessity of defending and fomenting the national production, both agricultural and industrial, from foreign competition. It looked only secondarily to the expansion of exports. In practice the French system was readjusted as a working measure through administrative methods. Germany's system had less flexibility, but under her policy fixity was more important than flexibility.

Germany's conventional tariff system originated after the adoption of the *Zollverein,* or Customs Union, of the several states in 1870. The Imperial German Government in 1879 concluded reciprocity treaties with seven European countries. The negotiations were conducted on the basis of the existing tariff, the schedules of which were reduced to the countries that entered into the treaties and automatically to those which were entitled to favored-nation treatment. The reduced tariff, being based on commercial conventions, was known as the conventional tariff, while the old tariff, which was not abrogated, was called the general tariff.

Germany had specific commercial conventions with not more than a dozen nations, but under the automatic operation of the favored-nation clause fully fifty countries enjoyed her conventional tariff rates. In illustration of the operation of this clause, the conventional treaty with France made a reduction from the German general tariff of twenty per cent. on machine tools in return for an equivalent reduction by France on German leather goods. England and Italy, having favored-nation treaties with France and Germany, got their leather goods into France and their machine tools into Germany at the conventional rates. If France had reduced the duty on coal from England, the reduced rate would have applied to German coal.

The French system of maximum and minimum schedules differed somewhat from the conventional tariff system. Instead of two rates for a selected list of articles, as in the case of the German tariff, it provided two rates on the majority of articles on which duties were imposed. In the application of these rates the maximum schedule corresponded to the general tariff, and the minimum schedule to the conventional tariff. The European nations which adopted the maximum and minimum schedule as the basis of their tariff systems were France, Spain, Portugal, Greece, and Norway. The nations which adopted the conventional system were Germany, Austria-Hungary, Russia, Italy, Switzerland, Serbia, Rumania, and Bulgaria.

In the application of the favored nation clause as a modifying element, the practice of modern commercial intercourse by the European nations was the reversal of that which obtained in the celebrated Methuen Treaty. The contracting countries did not seek to establish trade relations to their mutual advantage by providing for the specific disadvantage of other countries, as was done in that convention. Instead, each sought to secure concessions on the products in which it was most interested in obtaining a market, leaving other countries to take care of themselves. In some instances this was a reversion to the commercial treaties among the Italian City States of the thirteenth century, in which the favored-nation principle existed in germ form. But its application was much more complex. The schedules were modified by means of numerous classifications.

Germany has been given an undeserved reputation for ability in manipulating these classifications, so that favored-nation rates meant something or nothing, just as she chose to have them mean. The misleading argument of percentages in specific treaties is sometimes resorted to to prove the case, but Germany was not superman in making tariff treaties any more than in erecting a modern state on a biological argument of the right of might and of the survival of the fittest. In her passion for minutiæ she frequently overlooked advantages which might have been obtained through a broader spirit. To her tariff-makers a pinhead was as big as a crowbar.

The Russo-German treaty of 1894 has been frequently cited as an evidence of Teutonic super-shrewdness. Russia and Germany had been engaged in a tariff war which had proved mutually disadvantageous. The commercial convention showed the full knowledge of Russia's economic and industrial possibilities. Germany utilized this knowledge to secure concessions to her own advantage and to the disadvantage of competitors for Russian trade. But Russia also prospered in her trade relations with Germany. She was not the helpless victim of economic exploitation that has been represented. This is not the popular view, but it is borne out by the trade statistics, and the general features of the intercourse between the two countries.

To go afield from the intricacies of the European tariffs, a clear illustration of the application of the favored-nation clause is found in the Far East. It is shown in the tariff treaties of Japan made in 1911 with England and Germany. Both those countries demonstrated how the principle could be applied to their respective commercial policies.

Article VIII of the treaty between England and Japan provided that the articles, the produce or manufacture of the United Kingdom enumerated in a schedule which was annexed, should not, on importation into Japan, be subjected to higher customs duties than those specified in that schedule. The textile and the iron and steel schedules were the principal ones. The duties specified, particularly on cottons, were considerably lower than the statutory duties. Those on pig-iron and tin-plate also were materially lower. These were commodities in which the United Kingdom had the advantage in the

Japanese market over competing countries. Some kinds of paints also were included in this category.

The citation of some of the items with the treaty and the statutory rates illustrates the working of the favored-nation treatment. In a few instances also the statutory rates and the treaty rates were identical. This was a means of guaranteeing England against an increase in the specified rates by any general tariff legislation.[1]

The provisions in the treaty with Germany were similar to those in that with England, but they covered prin-

[1] *Tariff Schedule*

100 kin net weight. (100 kin equal 133 pounds.)
(1 yen equals 50 cents.)

No.		Treaty Rates Yen	Statutory Rates Yen
266	Paints, 6 kilos or less	4.25	6.40
275	Linen yarns:		
	Single, gray	8.60	9.25
298	Cotton tissues, etc., weighing not more than 5 kilos, gray, 19 threads or less	15.30	23.00
	35 threads or less	28.70	43.00
	43 threads or less	38.00	57.00
	More than 43	51.30	77.00
	Weighing more than 5 kilos:		
	19 threads or less	6.70	11.00
	35 threads or less	8.00	18.00
	43 threads or less	10.70	22.00
	More than 43	13.30	28.00
301	Woolens:		
	Weighing not more than 200 grammes per square meter	57.50	70.00
	Weighing not more than 500 grammes	45.00	60.00
462	Iron:		
	Pig iron	0.83	1.00
	Plates and sheets not coated	0.30	0.40
	Coated:		
	Tinned	0.70	0.90
	Galvanized	1.00	2.00

cipally the products in which Germany was strongest in the Japanese market.

The United States, under the favored-nation treatment, got the same rates that England and Germany did. But the United States exported to the Japanese market few of the textiles, particularly cotton goods, which England exported. These were almost a Manchester monopoly. Moreover, while England could export pig-iron with comparatively slight land-transportation charges, because of the nearness of her blast-furnaces to seaports, the United States would have heavy charges because of the long haul necessary to reach seaboard. Thus, while the Anglo-Japanese Treaty rates were not to the specific disadvantage of the United States, and in that sense did not follow the Methuen practice, they observed the Methuen principle of securing an advantage to one country at the expense of another, or at most with only an incidental advantage to it.

The application of the favored-nation treatment in future commercial intercourse is surrounded with uncertainties. There are, in the first place, the new nations. They will have economic policies of their own, or else they will not be free nations. The world economic tendency is toward nationalism. Internationalism, as a theory of political benevolence, does not alter this tendency. Instead, it is emphasized by the policies of the great powers.

The industrial instinct of peoples grouped as nations has been one of the verities of history. In its twentieth-century developments it has largely partaken of the nature of industrialization, sometimes described as economic protectionism. In most of its manifestations it has taken the form of protective tariff, often accompanied by bounties or subsidies to stimulate production.

Statesmen responsible for the destinies of growing commonwealths have not bothered about John Stuart Mills's justification of new countries violating the general principle of free trade and employing artificial means to build up their industries. They have done it simply as national policy. Some of them have not even known the philosopher's later modification of his views, and the preference he expressed for direct bounties instead of protective duties. British commonwealths enjoying economic autonomy have employed both methods. Canada stimulated her iron and steel industries by direct bounties and subsidies as well as by protective tariffs. Australia fomented her agricultural production by a premium on the cultivation of rice, tobacco, cotton, and coffee, while at the same time she protected these products in her tariff.

Older countries also have shown the force of the industrial instinct. Spain, although neglecting the possibilities of developing her raw resources of copper and iron ore, established textile industries by means of a high tariff. The thriving city of Barcelona is the justification of this policy, regardless of its conflict with the formula of the classical school of political economists.

Italy, with her natural resources principally agricultural, without natural fuel, and with no raw copper, developed textile and electrical industries that gave her a world market.

The genius of Sergius de Witte gave Russia an industrial life that was most promising. It centered principally in the textile and chemical industries of Warsaw and Lodz. Poland is one of the new nations, and these industrial centers are in Poland. The industrial instinct of the new and independent Poland is likely to find further expression. Industrialization is apt to become a cardinal part of her national policy. Her new national life must be molded to her own circumstances. This means that her commercial intercourse must be based on what is conceived to be best for Poland by her people.

Others of the new nations are principally agricultural, and the development of economic protectionism may not be so marked, yet inevitably there will be manifestations of it. All these countries will want to find their place in world commercial intercourse. The point of great interest to them is their status with favored nations and as favored nations.

The indications are clear that the great powers will have very distinct national policies of their own. Whether this will take the form of conditional instead of unconditional favored-nation treatment will depend in some degree on the action of two or three commercial nations.

The most powerful figure among them is Great Britain, and Great Britain has entered on a new era in trade and industry. Some of its manufactures are purely domestic; more extend beyond England's borders. It is especially not as England, but as the British Empire, that the new tendencies are to be considered. Some colonial statesmen have indicated a preference for the term "commonwealth" instead of "empire." But in trade relations it is in reality an empire that is formulating a policy and that must be dealt with by other countries. For that reason the term is retained. The

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CHAPTER VII

BRITISH TRADE POLICY

Edmund Burke's survey of England's trade two centuries ago — Before and after the Great War — Imperial preference as an outcome — From Joseph Chamberlain to Lloyd George — Protective tariff tendencies in war measures — The Budget of 1919 — The self-governing colonies — India and the dependencies — The world view — Disguised or straightforward protection? — Government participation in finance and commerce — British trading corporation — Direct subsidies — Some national traits — British interests the key to British policy.

We stand where we have an immense view of what is and what is past. Let us, before we descend from this noble eminence, reflect that this growth of our national prosperity has happened within the short period of the life of man. It has happened within sixty-eight years. There are those alive whose memory might touch the two extremities. For instance, My Lord Bathurst might remember all the stages of the progress. He was in 1704 of an age at least able to comprehend such things.

THE speaker was Edmund Burke; the place, the House of Commons; the theme, conciliation with America. The courtly eulogy of Lord Bathurst was the preface to statistics of exports as they appealed to the opulent imagination of the foremost political philosopher of the day. The purpose was to show the importance to England of keeping the commerce of the revolting colonies, which was in reality foreign commerce.

The succinct story of commercial progress, as it flashed through the penetrating mind of Burke, was that in the opening years of the eighteenth century, when there were five million inhabitants, the whole export trade of England amounted to six and a half million pounds sterling, and that less than seventy-five years later the commerce with the American colonies alone had amounted to this sum.

Export commerce of the United Kingdom in 1913, with forty-five million inhabitants, was in excess of five hundred and fifty million pounds sterling or $2,700,000,000. The span of three Biblical lives embraces the growth of exports to these stately statistics. The interval covers England's evolution as the workshop, the warehouse, and the clearing-house of the world. The figures visualize the impressive drama of British trade as it unfolded in little more than two centuries.

The Great War interrupted, but could not destroy, the volume of this trade. Temporary war measures merged into permanent policies and government participation in industry, finance and commerce became accepted as policy in the future trade relations of the United Kingdom. The most important result is imperial preference, propounded in peace by Joseph Chamberlain, and accepted in war by Lloyd George.

A résumé of the British movements to get away from free trade is desirable in order to appreciate the change. So strongly had tradition entrenched itself that when they began their agitation late in the nineties the English protectionists found it essential to seek the thing without the name. The approaches toward protection as a national policy were made under various names — fair trade, agricultural aid, fiscal reform, fiscal necessity, and, finally, tariff reform. The most aggressive agitation was carried on under the latter name.

An American protectionist, keeping in mind Mr. Blaine's dictum not to assume that protection, is in all countries and in all circumstances the wisest policy, may examine the shifting aspects of the controversy dispassionately. The most virile movement, under the name of tariff reform, was instituted by the radical leader, Joseph Chamberlain, after he left the Liberal party and united with the Tories in opposition to Home Rule for Ireland. This coalition was known as the Unionist party. The effort was to have it unite on tariff reform as a political issue in addition to irreconcilable opposition to Home Rule.

In the rough, the program as first promulgated was not to tax raw material; to tax foreign manufactures both for revenue and in order to protect British manufacturers against foreign competition; to enact a tariff with retaliatory provisions as a means of securing fair treatment from countries that had hostile tariffs; to keep British capital employed in industries at home instead of letting it go abroad to be paid out in wages to foreign workmen; to tax food products, and to strengthen the political ties between the colonies and the mother country by preferential schedules.

"Tariff reformers," said Joseph Chamberlain in his London speech in 1904, "have three objects in view. We hope to stimulate the industry and invention of this country by giving it greater security. We believe that it is the duty of our government to defend the commerce of the country against unfair competition, and we desire to encourage trade within the Empire and strengthen and unite it by these means."

Joseph Chamberlain was not deeply versed in economics. His program, as set forth in his speeches, was crude, and he frequently contradicted himself; yet he held tenaciously to the imperial idea politically, and to imperial tariff preference as a part of it. With his usual boldness, he faced the main issue squarely when he pronounced in favor of taxing food products, but he displayed a childlike ingenuousness when he assumed that the great colonies, such as Canada and Australia, would halt their own industries by refraining from protective duties as against the manufactures of the United Kingdom.[1] The friendly promptness with which Canada and Australia corrected this error caused the subsequent discussion of colonial preference to be conducted with the full knowledge that the preferential rate for British manufactures was to be only for such articles as would not compete seriously with the products of colonial industry. The purpose of the colonies was in reality to secure a seat at the council table.

Challenged in their citadel, the free-traders reaffirmed their doctrine, though within limited range. Free trade was no longer the universal principle, the economic verity for all the world, but the most profitable and, therefore, the most convenient fiscal policy for Great Britain. "We are defending it [free trade]," said Premier Asquith in his London speech in 1909, "on the platform and in the House of Commons on the ground that experience has shown that it is the system best suited, nay, that it is the only system suited at all, to the actual con-

[1] Mr. Chamberlain, in a speech at Glasgow in October, 1903, proposed these duties on foreign products: Wheat and flour, two shillings per quarter of eight bushels; meat and dairy produce, five per cent. ad valorem. Maize and bacon were excluded from duties. Remissions were to be made of three fourths of the duty on tea, one half that on sugar, and one half that on coffee and cocoa. Colonial preference was to be established by exemption from the duties imposed. Preferential treatment also was to be given colonial wines and fruits.

dition of industrial exigencies and practical everyday necessities of British trade." The free-traders affirmed that protection and preference meant dearer food and dearer raw material and, as a consequence, increased restriction of production and commerce, which meant an increase of the number of unemployed.

The contest raged fiercely. There were occasional broadsides against the United States, but the campaign was directed with special virulence against Germany. The rallying cry was to destroy German competition in the British market, and it was then that the probability of the war of arms as well as a war of trade began to dawn on the people of the United Kingdom.

The movement for a time seemed to be making headway. Many of the crudities of the Chamberlain plan were pruned away, and definite legislation on a protective basis was outlined. But after ten years agitation it collapsed. One reason was the inability to array all the Unionist elements in support of the scheme. Many of the Conservatives would not subordinate their traditional free-trade principles to their hatred of Home Rule, and thus make tariff reform the principal program of the Unionists. Arthur J. Balfour, the dialectical leader of the Unionists, who failed to accept the tariff policy in its entirety, was pushed aside, and Bonar Law, a robust partizan, supplanted him; but this did not change the situation.

The principal cause of the failure of the movement was the unwillingness of the people of the United Kingdom to pay a tax on food products, and there appeared to be no possibility of laying tariff duties and carrying out schemes of colonial preference without taxing wheat and other food imports. The growing Labor party was implacably hostile to such a proposition, and the middle classes, outside the manufacturers, were lukewarm. The majestic body of British public opinion voiced the conclusion that a continuance of the free-trade system was more convenient and more profitable than would be the change to a protective tariff. In the midsummer of 1914 it might fairly be said that protection in England was a dead issue. The Unionists for ten years had tried to get into power on it, and had failed. The trade with Germany in 1913 amounted approximately to $400,000,000 imports and to $203,000,000 exports.[1] The British people as a whole seemed satisfied with this condition.

More disquieting to the protectionists was the limited production of pig-iron. In the period between 1894 and 1908 the average annual production was eight million two hundred and thirty-nine thousand tons in the United Kingdom, and six million one hundred and eighty-one thousand tons in Germany. In 1913 Germany had trebled this average production. The output of her blast-furnaces was nineteen million two hundred and ninety-two thousand tons; that of the United Kingdom was only ten million four hundred and seventy-nine thousand tons. The British manufacturers themselves were blamed for the slight increase in British production, but their retort was that their capital was more beneficially employed in other forms of industrial production.

The Great War startled England, but it did not cause an immediate change in public sentiment concerning the relative merits of free trade and protection as the policy most convenient and most profitable for the United Kingdom. It did, however, lead gradually to the in-

[1] British Board of Trade Statistics for 1913,— Imports from Germany into the United Kingdom, £80,411,000; exports, £40,678,000.

dorsement of the policy of imperial preference. The steps were progressive. Parliament directed consultation with the governments of the dominions in order to insure the economic mobilization of the Empire. A royal commission, known as the Balfour Commission, because its chairman was Lord Balfour of Burleigh, was appointed. It reported in favor of discriminating duties to encourage industry and trade within the Empire.

This commission agreed on the general proposition of preferential duties. Some of its members qualified this with the statement that they were not abandoning their free-trade principles, but were recognizing an actual condition. Following this report the Imperial War Conference, in which the colonial premiers participated, resolved in 1917 that the time had arrived when all possible encouragement should be given to the development of imperial resources, and especially to making the empire independent of other countries in respect to food supplies, raw materials, and essential industries. With these objects in view the conference expressed itself in favor of the principle that each part of the empire, having due regard to the interests of the Allies, should give especially favorable treatment and facilities to the produce and manufactures of other parts of the empire.

This recognition of the principle of imperial preference was followed by more definite commitments to its practice on the part of the Government. Not all parties or political groups accepted it, but it manifestly was acceptable to a large body of public opinion. The reservations made did not weaken this acceptance. The popular idea was that under imperial preference Great Britain would be an economic unit both as to raw materials and manufactured products.

reason, have characterized it as the bulwark of protection in accordance with nationalistic policies. It has been described as a device for lowering high tariffs, and, under the European practice, that undoubtedly has been the effect; but there also has been the preliminary practice of enacting high protective duties as the basis for concessions. The results of the general practice, however, are more important than the claims of the controversalists. Under the unconditional interpretation of the favored-nation treatment, with frequent modifications, the European nations in the course of half a century secured uniformity in commercial intercourse by developing a system of conventional tariffs.

All the leading commercial nations with the exception of Great Britain, which was adhering to a purely revenue tariff, at the outbreak of the Great War had adopted the double tariff system on the basis of maximum and minimum schedules. Germany and France were the exponents of the different applications given to the system through these two sets of schedules. German policy assumed the expansion of exports as the primary and principal national necessity. It assumed comparative safety from foreign competition. The French system, on the contrary, assumed primarily the necessity of defending and fomenting the national production, both agricultural and industrial, from foreign competition. It looked only secondarily to the expansion of exports. In practice the French system was readjusted as a working measure through administrative methods. Germany's system had less flexibility, but under her policy fixity was more important than flexibility.

Germany's conventional tariff system originated after the adoption of the *Zollverein,* or Customs Union, of the several states in 1870. The Imperial German Government in 1879 concluded reciprocity treaties with seven European countries. The negotiations were conducted on the basis of the existing tariff, the schedules of which were reduced to the countries that entered into the treaties and automatically to those which were entitled to favored-nation treatment. The reduced tariff, being based on commercial conventions, was known as the conventional tariff, while the old tariff, which was not abrogated, was called the general tariff.

Germany had specific commercial conventions with not more than a dozen nations, but under the automatic operation of the favored-nation clause fully fifty countries enjoyed her conventional tariff rates. In illustration of the operation of this clause, the conventional treaty with France made a reduction from the German general tariff of twenty per cent. on machine tools in return for an equivalent reduction by France on German leather goods. England and Italy, having favored-nation treaties with France and Germany, got their leather goods into France and their machine tools into Germany at the conventional rates. If France had reduced the duty on coal from England, the reduced rate would have applied to German coal.

The French system of maximum and minimum schedules differed somewhat from the conventional tariff system. Instead of two rates for a selected list of articles, as in the case of the German tariff, it provided two rates on the majority of articles on which duties were imposed. In the application of these rates the maximum schedule corresponded to the general tariff, and the minimum schedule to the conventional tariff. The European nations which adopted the maximum and minimum schedule as the basis of their tariff systems were France, Spain, Portugal, Greece, and Norway. The nations which adopted the conventional system were Germany, Austria-Hungary, Russia, Italy, Switzerland, Serbia, Rumania, and Bulgaria.

In the application of the favored nation clause as a modifying element, the practice of modern commercial intercourse by the European nations was the reversal of that which obtained in the celebrated Methuen Treaty. The contracting countries did not seek to establish trade relations to their mutual advantage by providing for the specific disadvantage of other countries, as was done in that convention. Instead, each sought to secure concessions on the products in which it was most interested in obtaining a market, leaving other countries to take care of themselves. In some instances this was a reversion to the commercial treaties among the Italian City States of the thirteenth century, in which the favored-nation principle existed in germ form. But its application was much more complex. The schedules were modified by means of numerous classifications.

Germany has been given an undeserved reputation for ability in manipulating these classifications, so that favored-nation rates meant something or nothing, just as she chose to have them mean. The misleading argument of percentages in specific treaties is sometimes resorted to to prove the case, but Germany was not superman in making tariff treaties any more than in erecting a modern state on a biological argument of the right of might and of the survival of the fittest. In her passion for minutiæ she frequently overlooked advantages which might have been obtained through a broader spirit. To her tariff-makers a pinhead was as big as a crowbar.

The Russo-German treaty of 1894 has been frequently cited as an evidence of Teutonic super-shrewdness. Russia and Germany had been engaged in a tariff war which had proved mutually disadvantageous. The commercial convention showed the full knowledge of Russia's economic and industrial possibilities. Germany utilized this knowledge to secure concessions to her own advantage and to the disadvantage of competitors for Russian trade. But Russia also prospered in her trade relations with Germany. She was not the helpless victim of economic exploitation that has been represented. This is not the popular view, but it is borne out by the trade statistics, and the general features of the intercourse between the two countries.

To go afield from the intricacies of the European tariffs, a clear illustration of the application of the favored-nation clause is found in the Far East. It is shown in the tariff treaties of Japan made in 1911 with England and Germany. Both those countries demonstrated how the principle could be applied to their respective commercial policies.

Article VIII of the treaty between England and Japan provided that the articles, the produce or manufacture of the United Kingdom enumerated in a schedule which was annexed, should not, on importation into Japan, be subjected to higher customs duties than those specified in that schedule. The textile and the iron and steel schedules were the principal ones. The duties specified, particularly on cottons, were considerably lower than the statutory duties. Those on pig-iron and tin-plate also were materially lower. These were commodities in which the United Kingdom had the advantage in the

Japanese market over competing countries. Some kinds of paints also were included in this category.

The citation of some of the items with the treaty and the statutory rates illustrates the working of the favored-nation treatment. In a few instances also the statutory rates and the treaty rates were identical. This was a means of guaranteeing England against an increase in the specified rates by any general tariff legislation.[1]

The provisions in the treaty with Germany were similar to those in that with England, but they covered prin-

[1] *Tariff Schedule*

100 kin net weight. (100 kin equal 133 pounds.)
(1 yen equals 50 cents.)

No.		Treaty Rates Yen	Statutory Rates Yen
266	Paints, 6 kilos or less	4.25	6.40
275	Linen yarns:		
	Single, gray	8.60	9.25
298	Cotton tissues, etc., weighing not more than 5 kilos, gray, 19 threads or less	15.30	23.00
	35 threads or less	28.70	43.00
	43 threads or less	38.00	57.00
	More than 43	51.30	77.00
	Weighing more than 5 kilos:		
	19 threads or less	6.70	11.00
	35 threads or less	8.00	18.00
	43 threads or less	10.70	22.00
	More than 43	13.30	28.00
301	Woolens:		
	Weighing not more than 200 grammes per square meter	57.50	70.00
	Weighing not more than 500 grammes	45.00	60.00
462	Iron:		
	Pig iron	0.83	1.00
	Plates and sheets not coated	0.30	0.40
	Coated:		
	Tinned	0.70	0.90
	Galvanized	1.00	2.00

cipally the products in which Germany was strongest in the Japanese market.

The United States, under the favored-nation treatment, got the same rates that England and Germany did. But the United States exported to the Japanese market few of the textiles, particularly cotton goods, which England exported. These were almost a Manchester monopoly. Moreover, while England could export pig-iron with comparatively slight land-transportation charges, because of the nearness of her blast-furnaces to seaports, the United States would have heavy charges because of the long haul necessary to reach seaboard. Thus, while the Anglo-Japanese Treaty rates were not to the specific disadvantage of the United States, and in that sense did not follow the Methuen practice, they observed the Methuen principle of securing an advantage to one country at the expense of another, or at most with only an incidental advantage to it.

The application of the favored-nation treatment in future commercial intercourse is surrounded with uncertainties. There are, in the first place, the new nations. They will have economic policies of their own, or else they will not be free nations. The world economic tendency is toward nationalism. Internationalism, as a theory of political benevolence, does not alter this tendency. Instead, it is emphasized by the policies of the great powers.

The industrial instinct of peoples grouped as nations has been one of the verities of history. In its twentieth-century developments it has largely partaken of the nature of industrialization, sometimes described as economic protectionism. In most of its manifestations it has taken the form of protective tariff, often accompanied by bounties or subsidies to stimulate production.

Statesmen responsible for the destinies of growing commonwealths have not bothered about John Stuart Mills's justification of new countries violating the general principle of free trade and employing artificial means to build up their industries. They have done it simply as national policy. Some of them have not even known the philosopher's later modification of his views, and the preference he expressed for direct bounties instead of protective duties. British commonwealths enjoying economic autonomy have employed both methods. Canada stimulated her iron and steel industries by direct bounties and subsidies as well as by protective tariffs. Australia fomented her agricultural production by a premium on the cultivation of rice, tobacco, cotton, and coffee, while at the same time she protected these products in her tariff.

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In the rough, the program as first promulgated was not to tax raw material; to tax foreign manufactures both for revenue and in order to protect British manufacturers against foreign competition; to enact a tariff with retaliatory provisions as a means of securing fair treatment from countries that had hostile tariffs; to keep British capital employed in industries at home instead of letting it go abroad to be paid out in wages to foreign workmen; to tax food products, and to strengthen the political ties between the colonies and the mother country by preferential schedules.

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This commission agreed on the general proposition of preferential duties. Some of its members qualified this with the statement that they were not abandoning their free-trade principles, but were recognizing an actual condition. Following this report the Imperial War Conference, in which the colonial premiers participated, resolved in 1917 that the time had arrived when all possible encouragement should be given to the development of imperial resources, and especially to making the empire independent of other countries in respect to food supplies, raw materials, and essential industries. With these objects in view the conference expressed itself in favor of the principle that each part of the empire, having due regard to the interests of the Allies, should give especially favorable treatment and facilities to the produce and manufactures of other parts of the empire.

This recognition of the principle of imperial preference was followed by more definite commitments to its practice on the part of the Government. Not all parties or political groups accepted it, but it manifestly was acceptable to a large body of public opinion. The reservations made did not weaken this acceptance. The popular idea was that under imperial preference Great Britain would be an economic unit both as to raw materials and manufactured products.

The vision of the British Empire as an economic unit kindles the imagination. It means the raw resources of Australia, of New Zealand, of South Africa, of India, of Jamaica, of Canada, and of the countless British possessions which dot the seas pouring in endless stream into the mills and factories of the United Kingdom, and the manufactured articles pouring out for the consumption of hundreds of millions of people within and without the British domain. But this has been the process without any tariff links to unite the scattered units of the empire. In operation, what the system means is a wider extension and closer interweaving of the colonial system of preferential tariffs with the English tariff and fiscal system. This requires that some complex problems of adjustment with other countries of the world shall be solved. Solution of these problems in some degree will determine whether the plan is more beneficial to the United Kingdom than free trade has been. The solving of them will interest other nations fully as much as Great Britain and will influence their policies.

The tariff tendencies were shown in the succession of war-revenue budgets. They increased the duties on the few articles such as tea, tobacco, and coffee on which a tariff for revenue was levied. They also, for the first time, placed duties on manufactured articles, a small list at first, but one which could be increased. The intention undoubtedly was to decrease the excess of imports, and to establish something like a balance of trade; but the effect was a large measure of incidental protection to British manufactures. This effect was further shown in the last war budget, for such it was, although it was adopted in the spring of 1919. By this time the program of imperial preference was being worked out. Preference was extended to manufactured articles that are not manufactured for export by the colonies. The effect, of course, was to give the British manufactures protective duties on these articles.

A much larger degree of protection, however, was extended under the system of government licenses. For the import of articles from the United States the list was very large. The purpose was the sound fiscal one of decreasing imports because the country could not send the gold abroad to pay for them, and could not afford, economically speaking, to establish further credits; but there was the definite indication that the system was used to lay the foundation for discriminating in trade relations and for giving the British manufactures a permanent advantage growing out of a temporary condition. In reference to the colonies the discrimination was open. Print paper and scores of articles from the United States, for example, were refused license, while it was extended to Canadian print paper and the other products.

In the budget of 1919 the permanent plan for discrimination in tariff was foreshadowed. Austin Chamberlain, the chancellor of the exchequer, in announcing the budget said that there were four main considerations. The preference should be substantial in amount. The rates should, as far as possible, be few and simple. Where there was an existing excise duty corresponding to customs duty, the excise must be proportionately adequate, so there should be no preference at the expense of the home producer. So far as practicable increasing duties on the products of the Allies for the purpose of imperial preference was to be avoided. This policy in practice worked out by keeping the existing duties on their products unchanged, and reducing the duties on similar products when coming from British colonies and possessions.

Unfriendly critics pointed out that Canada, Australia, and South Africa could derive little benefit from preferential duties on clocks, watches, cinema films, motorcars, or musical instruments, since they did not manufacture these articles for export. If they did, this would bring them into stronger competition with the British manufacturers of similar commodities. The real purpose of these duties was declared to be to protect the home manufacturers, and the question was how far the list would be extended from time to time. The preferential rates also applied to colonial wines, sugars, tea, cocoa, and coffee.

Some general considerations may be briefly suggested. One of these is how far the preferential policies shall be applied to the dependencies as well as to the self-governing colonies which in all their tariff preferences fully protect their own manufactures as against the manufactures of England. The preference is simply to goods from the United Kingdom over goods from other countries.

India is likely to be a test-point. For many years the Indian Government sought to establish protective duties on certain classes of cotton goods. Whether the Liberals or the Conservatives were in power, the Home Government always defeated these attempts. The most that was allowed was the duty on imported cotton goods of three and a half per cent. with a countervailing excise of the same amount. The stern economic moralists of the Manchester School insisted that India did not know what was good for itself in seeking to establish protective duties. But they knew what was good for Manchester. This discrimination was not swept away, although, during the war India advanced a substantial loan to the Home Government, and the increase of the duties on cotton goods was acquiesced in, notwithstanding there were strong protests against it. The future adjustment of this question will in some measure be a test of preference within the empire.

The world at large is not deeply concerned with these questions of adjustment within the empire except as they affect nations outside the empire. Lloyd George declared that imperial preference was to be made effective without increasing the cost of food. This would mean that there would be no effort to give the wheat of Canada and Australia a preference over the wheat of the United States and the Argentine Republic. It would avoid the possibilities of complications with those two countries. But it would disappoint the grain-raising colonies.

Control of raw materials through colonial export duties is one of the reserve factors of imperial preference. It has been employed effectively in the past. It is one of the points in the program of the economic subjection of Germany by denying raw materials. But it may be employed against friendly nations without unfriendly political intent, and with the open purpose of promoting British industries. The prevention of an American smelting industry for tin has been noted. By laying an export duty on tin for countries outside the United Kingdom it was possible to defer the realization of this enterprise until tin could be secured from another quarter of the world.

During the war recourse was had to the potency of export duties in several instances. The Malay states, which are not self-governing, again afforded the example. An export duty on tin-ore was adopted, effective from January 1, 1917, by which ore exported under guaranties that it should be smelted in the Straits Settlement, Australia, or the United Kingdom bore a duty of seventy-two per cent. of the duty on tin; while ore exported for smelting elsewhere bore the same duty, plus an additional thirty dollars per picul. Previously the export duty had been seventy per cent., with the same discrimination. The action taken, therefore, might be interpreted as a permanent policy.

Palm-oil, which is as necessary for making tin-plate as it is useful in making soaps, was also made the subject of export duties from British West African possessions.

No positive judgment can be pronounced on imperial preference in its initial stages. Manifestly, however, the British statesmen who seek to put it into effect desire to keep the question of tariff duties in the background. Disguised or indirect protection is more to their liking. When the tariff reform movement was at its height, the Liberal government offered various measures as an offset. These included modifications of the Trademark Acts. The Patents Act was Lloyd George's specific in 1906 for giving employment to British labor and offsetting the argument of the protectionists that free trade was responsible for unemployment. Under the Patents Act foreigners who took out patents were compelled to do a certain amount of manufacturing in the United Kingdom. This resulted in the setting up of many American branch establishments in England.

During and following the war the tendency has been very marked to formulate a policy of nationalistic fiscalism by the regulation of export railroad rates, by the licensing of investment of capital in constructive enterprises so as to exclude foreign participation, and by controlling exchange. The colonies come within the beneficial scope of these plans. Some of the advocates of these measures, while characterizing them as a chapter in the program of imperial preference, are also bold enough to describe them as the new protection, or as economic protection, notwithstanding the German origin of the latter term. It is another phase of the tendency to keep tariff schedules in the background, and thus avoid antagonizing free-trade traditions.

The world view is not likely to be so circumspect. It recognizes that imperial preference means trade imperialism on the part of the British Empire. Commercial nations realize that they must take measures to adjust themselves to the new British policy. Some of these may require that they suffer inconvenience. Others are likely to be definite measures to prevent discriminations, and to insure equality of treatment for their products in British markets whether colonial or in the United Kingdom. They would prefer, however, that British statesmen meet the situation squarely, and acknowledge that straightforward protection is a part of the future policy of the empire and is not confined to tariffs.

The direct participation of the British Government in commercial and industrial enterprises in its first manifestation had no relation to world trade. It was a war measure, but its effects were not temporary. The chemical and dye industries received direct government financial aid. The purpose was to establish the key industry, essential to munitions-making. A broader object was to make England forever free from the control which Germany previously had held of chemicals and dyes. The British chemical and dye industry may, by a process of transition, become a purely private enterprise; but as such it will continue to have the fostering care of the Government either by protective duties or by other forms of protection.

The general policy of the British Government at the outset of the war was to preserve the export trade. The revenue and fiscal and other measures, including the broad powers exercised under the Defense of the Realm Act, were all bent to this purpose. Exports were too valuable an asset to the British Empire to be endangered. The most careful solicitude was shown. Many patriotic Britons abroad who were anxious to come home to fight were made to understand, reluctantly on their part, that they could be of more service in continuing as traders. The solicitude to preserve British industries abroad extended to every detail. Nitrate plants in Chile, a neutral country, which suffered few of the war hardships in the way of restricted food and other supplies, found themselves stocked with whole wheat flour at a time when the English people at home, and the people in the United States who were supplying the wheat, had to be content with war bread. In the later and most desperate stage this policy was relaxed somewhat, so as to concentrate every economic resource on winning the war. But the trade prospects after the war were never lost sight of. The Ministry of Reconstruction, with its multiplicity of commissions, performed a vast service to Great Britain in its adaptation of the needs of the future.

Measures for nationalizing the organization of commerce and industry adopted during the war have a permanent influence on British trade policy. The principle adopted in some cases was that of subsidizing companies to promote British interests abroad. The immediate purpose was to offset Germany in the war, but it was not intended that the policy entered upon should be concluded with the ending of the war. The British Trading Corporation was the most striking instance of this policy. Originally it was called the British Trade Bank, and was intended to supplement the already ample facilities of London finance for handling international transactions and promoting British commerce abroad. The formation of this financial institution was recommended and instituted by the Board of Trade, which is a department of the British Government corresponding to the Department of Commerce in the United States.

The substance of the original proposition was that a trade bank with a capital of ten million pounds sterling, part of which should be contributed by the Government, should be formed for the specific purpose of financing enterprises engaged in foreign trade or in providing facilities for commerce. The Board of Trade plan was set forth in detail, and was subsequently broadened. There was some adverse comment in Parliament, and the fear of competition hurtful to existing institutions was also voiced; but the promise that the corporation should be conducted on lines to aid British trade and industry in foreign fields was sufficient to overcome the objections. The British Trading Corporation is to-day the living evidence of England's determination to employ the Government as a means of extending England's foreign trade.

Another example of the new policy was that of the British-Italian Corporation. This was formed by the London banks with a subscribed capital of one million pounds sterling, but the Government covenanted to contribute fifty thousand pounds sterling annually to the company by way of subsidy during each of the first ten years after its incorporation. A company also was formed in Italy, known as the Italian-British corporation, with a capital of four hundred thousand pounds sterling, one half of which was taken by the British corporation, and one half by the Italian corporation. The corporations were provided with interlocking directorates. There was a war purpose in the aid which the British Government gave this enterprise, since it was the desire to undermine the financial and industrial foothold that Germany had gained in Italy. But the government participation was not withdrawn after the armistice was signed. The Anglo-Italian corporation is in all essentials an after-the-war enterprise in which the British Government participates with a view to aiding British industry abroad.

The similarity of these two institutions to German institutions will be noted by the observer. They are the frank confession that England, in her foreign trade policy, has accepted the German system. Many other instances may be found in the various measures of government participation and control of finance, industry, and commerce.[1]

Trade intelligence has not been in the past one of the strong points in British foreign commerce. The British Consular Reports were cast in a mold many years ago, and the mold was broken. These reports formed a body of solid trade literature. One always knew what to

[1] These subjects are covered in their full detail in the extensive series of White Papers issued by the British Government. The files of the *Board of Trade Journal* may be consulted for a contemporary account of the numerous measures adopted.

find and where to find it. In whatever part of the world reports were made, the general trend was the same with trade statistics of the latest period replacing the statistics of a previous period. Useful as the information was, it did not meet changing conditions. Before the war the British consuls were frequently criticized for their lack of enterprise. Unfavorable comparisons were made with the work of American consuls. Some changes had been attempted by the Foreign Intelligence Bureau, but the unscalable wall of tradition was run against. The changes made in the system following the war quickened appreciation of what is news in regard to world trade on the part of the British consular representatives.

Temperament in trade — that is, in international commerce — performs a valuable function, just as it does in salesmanship. In this respect it cannot be said that the Briton is lacking. An American colloquial phrase describes him. Foreign trade "comes natural" to him, but it comes natural only through inheritance. Generation after generation of young Britishers sent abroad have come to know almost instinctively how to build up business for their country. They also have got in the habit of regarding foreign markets as theirs by a sort of divine right. This frequently makes the individual Briton arrogant and offensive, but it makes the British merchants as a body very powerful in any foreign country. It comes natural for them to act together. Their solidarity is reflected at home, and contributes very greatly to influence British foreign policy.

There is also the direct influence of the British business man or returned merchant who, after a valuable experience in foreign countries, has returned to England.

His familiarity with the needs of British trade abroad makes him a valuable adviser. The belief he imbibed as a young man in his foreign environment that foreign trade belongs by a sort of divine right to England makes him an unconscious, but aggressive, partizan. His influence frequently extends to more direct participation in public affairs. Not infrequently his contributions to his party, or other political services, have secured him a knighthood, a baronetcy, or even a peerage. From this elevated attitude he exercises a greater influence than he could as a mere commoner.

The nationalization projects are to be reviewed principally in relation to what comes after. Nationalizing the munitions factories was purely a military measure and of a temporary character. The virtual nationalization of the railways was entirely different. It was done over-night, the day following the declaration of war. Laws passed in previous years had provided that the railways should come under government control as soon as war should be declared. The stockholders were completely eliminated from any voice in the management of their property. The Government operated the lines primarily with a view to military necessities, but there was no dislocation of the normal relation of transportation to production and consumption. The operation of forty thousand miles of railway was not in itself a difficult matter. The policy of nationalizing the railways permanently opens many interesting problems, but it may be assumed that under government ownership and operation there would be a special regard for the effect of railway rates on overseas trade.

Government control of shipping lines is not so simple as the operation of land lines. The nationalization in this case hardly would be so complete. It would take the form of government direction with a view to intra- and inter-steamship operation rather than of complete ownership.

The proposed nationalization of the mines is a much more serious question. They are the basis of England's iron and steel industry, and the iron and steel industry is the foundation of the foreign trade of the United Kingdom. The difficulty here is an economic one. There is a limit to wages that can be paid in mines as in other industries. Too high wages, whether in the form of money payments or of reduced working hours, may make production too costly.

Conservative British capitalists and industrial leaders, representatives of the old régime in finance and trade, have looked somewhat askance at direct participation of the Government in trade and industry. To their minds the policy is fraught with danger. England during the centuries having established her commercial supremacy through private enterprise, and the danger of Germany disputing that supremacy being removed, they see no need of changing the old order. But these objectors are in the minority. Nor is the change so great as it appears to them. At least this is true in so far as relates to foreign trade. It is one of form rather than of substance, a change from a passive to an active attitude, but in no way affecting the paternal concern of the Government in the trade of British subjects.

In the past the British Government almost automatically reflected the will of British business interests throughout the world. They were so widely extended and so potent that its protection and extension often was carried out without conscious motive. The colossal

British capital invested abroad, which formed the outlet for British industry made known its will, and the Government responded. In the future, instead of the Government being the agent, it becomes the principal. It initiates, and trade and industry become its instruments. But always and everywhere, and in whatever degree imperial preference may be made effective, British interests will be the key to British policy.

CHAPTER VIII

AMERICAN TRADE POLICY

Historic background — Commercial character of early diplomacy — Treaties after the Civil War — Blaine reciprocity conventions — Dingley Bill provisions — Cuban reciprocity treaty — Canadian reciprocity agreement — Adoption of double tariff system — Maximum and minimum experiment — Repeal by Underwood Act — Review of favored nation practice — Reasons for conditional interpretation by United States — Diplomatic correspondence — Cuba and other exceptions — Concluding résumé.

AMERICAN commercial policy on its foreign side, though vaguely defined, is distinctly nationalistic. Viewed in retrospect, this is clearly seen. The prospect may be gathered from it. The interests of the people of the country have been treated as paramount, but without prejudice to friendly intercourse with other peoples and recognition of the special economic circumstances of other countries. Definite affirmation is one of the essentials of the position of the United States as a world power in the new era of international commerce.

The historic background, from the time when Thomas Jefferson urged reciprocity as the true principle of commerce, affords suggestion. Theodore Lyman, an acute contemporary observer of American diplomacy during the first half-century of the national existence of the United States, asserted that the War of the Revolution was in itself, in principle, a commercial one. He remarked:

We were not concerned with the dynastic questions and boundaries, and political balances of power that entered into the diplomatic relations of the European countries. The people, with as little capital as credit, immediately entered upon a course of commerce. . . . The political relations of the United States with Europe became at once minute and extensive because the commerce of the country was so. On that account our diplomacy may be termed altogether of a commercial character; at least its legitimate origin being in commerce, our treaties, for the most part, have consisted of arrangements for the regulation of trade and navigation.[1]

"The best book on political economy in that new country," wrote Friedrich List later, "is the volume of life." The Tübingen professor of political economy drew his conclusions from personal experience. As a Pennsylvania farmer and publisher, as a coal-mine operator and pioneer railway-builder, he absorbed the idea of nationality in trade and industry, and returned to Germany to write the work which laid the foundation for the German system of protection as developed by Bismarck.

The book of life, as it unfolded, became so distinctly a volume of internal development that gradually international commerce as a chapter of national growth was obscured. In the decade before the Civil War the one important international trade arrangement was the Canadian reciprocity convention of 1854, known as the Elgin-Marcy Treaty. This was both a diplomatic and a commercial agreement between neighbors. It provided for the reciprocal privileges of fishing in the territorial waters of each country, and for the use of rivers and canals on equal terms as well as for the interchange

[1] "Diplomacy of the United States," by Theodore Lyman: Boston, 1827.

of commodities. In the commercial sense Canada was the gainer since her natural products found a better market in the United States than the similar products of the United States gained in Canada, and there was no provision for the exchange of manufactured articles.

Systematic attempts to expand the foreign market by means of trade treaties came after the Civil War. In some instances, as in the Hawaiian Reciprocity Treaty of 1875, the motive was a political one. The motive also had been political, or national, in the unratified treaty negotiated by Secretary Marcy in 1855. In the treaty of 1875 one purpose was to hold the Pacific outposts. Australia, as an integral part of the British Empire, was the country then feared to be planning annexation, not Japan. Propinquity and other considerations were mentioned, as well as the free admission of Hawaiian sugar into the United States in return for commercial concessions which were not of equal value.

The treaty which was negotiated by General Grant with Mexico in 1883 had as much a political as a commercial purpose. After ratification by the Senate, it was left ineffective through the refusal of the House of Representatives to pass the necessary enabling legislation. The treaty negotiated with Spain during President Arthur's administration also had a political as well as a commercial object. It related principally to the markets of Cuba, in which profitable concessions were granted on flour and other American products. It was withdrawn by President Cleveland before the Senate could act on it.

The reciprocity treaties negotiated in 1890 were the direct outgrowth of Mr. Blaine's demand that the McKinley Tariff bill should afford the opportunity for enlarging the market of the United States in the Ibero-American countries in furtherance of the Pan-American policy of which he was the prophet and protagonist. As secretary of state under President Harrison, Mr. Blaine was unwilling to let slip the opportunity for the practical application of his policy. His spectacular denunciation of the bill while it was in process of making, as not extending the market for a single barrel of pork or a bushel of wheat, caused a party majority to change the text and provide for limited reciprocity, on the basis of insuring some concessions for the products of the United States in return for the free admission of raw sugar, molasses, hides and skins, coffee and tea.[1]

Reciprocal arrangements were negotiated by John W. Foster as special commissioner with Brazil and other South-American and Central-American countries, with the British and Spanish West Indies, and with Santo Domingo. Germany and Austria-Hungary also concluded conventions with the purpose of insuring the market of the United States for their beet sugar. These treaties were nullified by the operation of the Wilson Tariff Act of 1894.

The act of 1897, known as the Dingley Tariff, contained a remedy for the high duties it carried by providing for reductions through international reciprocity. The reciprocity provisions were contained in two sections.[2] One section authorized the Executive to reduce the duties on argols, or crude tartars, champagne and high-grade spirits, paintings and statuary, in return for equivalent concessions of the products of the United States. Under it limited commercial arrangements with

[1] See Appendix A. Reciprocity Provisions of Tariff Laws.
[2] See Appendix A.

several European countries were put into effect. A clause authorizing the President to impose duties on coffee and tea with the purpose of obtaining concessions for the products of the United States was not utilized; but a number of countries were brought within the broader section of the law under which additional articles could be given a reduction of twenty per cent. from the specified rates of the Dingley Act, or be transferred from the dutiable to the free list. Reciprocal arrangements, negotiated under this section, required to be ratified by the Senate and approved by Congress.

John A. Kasson, an experienced legislator and diplomat, acting as the representative of the administration, negotiated a series of treaties under this section, as well as under the argol section. The countries making the agreements included several of the British possessions in the West Indies and Central-American Republic. The most important of the conventions were those negotiated with France and with the Argentine Republic. The latter was known as the Buchanan Treaty, taking the name of the minister who represented the United States at Buenos Aires.

President McKinley's unavailing efforts to secure the ratification of these treaties is a comparatively recent chapter in American trade policy. They were unacceptable to the party majority in Congress, and particularly in the Senate, because they covered some competitive products. With their failure the attempt to moderate the high duties of the Dingley Tariff Law by means of reciprocity treaties ended.

The reciprocity treaty with Cuba stands by itself. It had a political as well as a commercial motive. It was negotiated by President Roosevelt's direction in 1902, when Cuba was just entering on the experiment of protected independence under the shield of the United States. There were statesmen in Washington who recognized how greatly political stability and progress in self-government in the island depended on economic causes. Sugar is the dominating economic factor in Cuba. The treaty therefore provided for a uniform reduction of twenty per cent. in the duties on Cuban sugar and molasses imported into the United States, as also on tobacco and fruits and the products of the soil or industry. In return, products of the United States were given reductions in duty ranging from twenty to forty per cent. Entirely aside from its political character, the Cuban Reciprocity Treaty was a fair commercial bargain. The reduction in duties on articles imported into Cuba from the United States was a genuine equivalent for the reduced duty on Cuban sugar and tobacco in the United States.

The Canadian Reciprocity Agreement submitted to Congress by President Taft in February, 1911, and enacted into law in the following autumn, was a mutual-trade bargain. It provided for the free exchange of a large variety of agricultural products, for reciprocally reduced duties on some manufactured articles, and for special rates on other articles which it was not possible to place on the basis of reciprocal rates. It contained special provisions to insure the United States obtaining print paper. In the interchange of natural products it was true that the Canadian producers had more to transport across the border than would be exported to them, yet American farmers, notwithstanding that they were misled into violent opposition, would have received marked advantages in the wider market for their agricultural products. The failure of the Dominion Parliament to approve the agreement prevented a test of its value to the trade relations of the two countries.

President Taft's innovation in presenting the Canadian Reciprocity Agreement to the House of Representatives had much to commend it. It was not a formal treaty; it was an agreement between the Government of the United States and the Government of the Dominion of Canada as to the conditions under which they would admit certain products into each other's markets.

The agreement was transmitted simultaneously to the Congress of the United States and to the Parliament of the Dominion. In the United States the House of Representatives therefore took original jurisdiction, and the Senate acted after a bill came from the House, as is customary in tariff legislation. Objection was made that Congress could not modify a single provision without endangering the entire measure, but the practical aspect was that if new conditions arose during or after the pendency of the legislation the two governments could amend the agreement and submit the amendments to the respective legislative bodies. Actually, there would have been no more difficulty in securing amendments than happens with partizan tariff measures where members support the party bill and accept or reject only such amendments as come from the Ways and Means Committee.

Another objection to the form followed in the agreement was that since a law of this kind is for no definite period, and since Congress may pass subsequent laws repealing or nullifying it, the method has not the value of treaties, because these are for a fixed and definite period. Theoretically, this argument has force. In practice it has no weight. The reason is that Congress usually enacts tariff legislation without regard to treaties. The Wilson Tariff Law of 1894 destroyed the preference given the products of Brazil and other countries under the Blaine treaties. They were for a fixed period, but they were terminated immediately when this law went into effect by its automatic operation in respect to the free list and the change in duties.

The only recent instance in which Congress in enacting tariff legislation has scrupulously observed treaty obligations was in the Payne-Aldrich Act of 1909. This act specifically provided that nothing in it should affect the Cuban Reciprocity Treaty; but the further stipulation was made that its provisions as to several European countries with which limited reciprocity conventions covering several commodities were in force should not apply to these commodities until the treaties had been abrogated, after due notice by the Department of State.

The Underwood-Simmons Law of 1913 provided that nothing in the act should abrogate, impair, or affect the Cuban treaty except the proviso to Article VIII, which was abrogated and repealed. Article VIII provided that during the existence of the convention no greater reduction than twenty per cent. on Cuban sugar should be allowed and no sugar the product of any other foreign country should be admitted at a lower rate than the existing one. This provision was put into the treaty as a Senate amendment at the insistence of the high protectionists, who did not intend that the Dingley rates should be lowered except to Cuba.

The Tariff Act of 1913, however, destroyed the main consideration for reciprocity on the part of Cuba. It provided for free sugar after a brief period, and since sugar far surpassed the remaining Cuban products, the principal economic reason for the treaty ceased to exist. There was no reciprocal equivalent. Cuba might have considered the free-sugar market of the United States as worth having on the same terms as other sugar-producing countries, but there was no ground why she should give concessions of from twenty to forty per cent. on a large number of products of the United States to get what other countries obtained for nothing.

The need of war revenue while the United States was still a neutral caused the free-sugar provision of the Underwood Act to be repealed. With the continuance of the duty, Cuba was not under the necessity of denouncing the treaty and withdrawing the preferential rates given products of the United States.

Until the passage of the Payne-Aldrich Act all the trade conventions negotiated by the United States were on the basis of the single schedule system. This law introduced a new principle into American tariff policy, that of the double tariff. The form followed was an adaptation of the conventional tariffs of European countries based on two sets of schedules. Maximum and minimum rates were provided, the minimum being twenty-five per cent. lower than the maximum rates, or, as it was sometimes put, the maximum being twenty-five per cent. higher than the minimum rates. Nominally, the maximum was the basic tariff. Virtually, it was not, since the minimum rates were accepted as the real measure of customs duties.

Under this dual tariff commercial relations were adjusted with one hundred and thirty-four countries. No nation sought to enforce maximum rates against the United States, and all received the minimum rates.

The maximum and minimum provision was useful in securing removal of discrimination against cotton-seed oil and other American products. For the first time it enabled something to be effected by the diplomacy of commerce in securing more favorable treatment for American live stock and meat products under the restrictions which were imposed by foreign governments exercising broad police powers in enforcing sanitary regulations. Some of the most acrid chapters in American diplomacy were the record of controversies on this subject, particularly with Germany and France.

When the Payne-Aldrich law was passed, the people of the United States were consuming the bulk of the meat production, and the question was not a vital one. Nevertheless, advantage was taken of the readjustment of the tariff relations to secure the removal of discrimination, which was practiced under administration construction and pure-food and sanitary regulations, although neither France nor Germany admitted that their regulations were utilized as disguised measures of protectionism. The whole world, however, knew that the objection was an economic one insisted on by the powerful agrarian aristocracy of Germany and by the French farmers who wanted American cattle and meats kept out of France.

The maximum and minimum experiment was crude, but promising. Its operation showed distinct advantages though it also developed defects. Official recommendations for curing these defects, and giving the principle a more effective application had been made when political revulsion changed the party majority in Congress and the national administration. The tariff legislation following this political change was based on the single schedule system. The Tariff Act of 1913 carried a section authorizing the Executive to negotiate commercial treaties, which should be submitted to Congress; but this provision gave the President no authority that he did not already possess.

The historic background of American trade policy would be lacking without inclusion of the favored-nation treatment. In retrospect and in prospect it is equally important.

The principle found expression in the first treaty of amity and commerce that the colonies were able to conclude. This was the treaty with France, ratifications of which were exchanged at Paris in July, 1778. It contained the favored-nation clause in the form which afterward became the subject of controversy. The treaty of 1800 with France, which also contained the favored-nation article, expired by limitation in eight years, and was not renewed. The treaty for the cession of Louisiana recognized that concessions of a political character were a valid basis of exchange for concessions of a commercial character. France, however, disagreed with the interpretation which the United States put on the article providing that the ships of France should be treated upon the footing of the favored nation in American ports. The misunderstanding was cleared by the treaty of 1831.

In this convention the principal of reciprocity was recognized, and it was also recognized that, to be mutually advantageous, political as well as commercial considerations should be taken into account. The United States agreed to reduce the duties on French wines for a period of ten years, in return for which France not only reduced the duty on long-staple cotton imported from the United States, but relinquished her claims and reclamations respecting the disputed article of the Louisiana Cession.

The conditional construction put on the favored-nation clause by the United States has been reasonably uniform. In the earlier treaties navigation was a leading feature of favored-nation treatment. The United States not only had a commerce of its own to carry, but was the carrier through its merchant marine of the commerce of other countries. Equality with the shipping of other nations in foreign ports was therefore important.

One of the clearest expositions of the conditional construction was given a full century ago in somewhat unique circumstances. In the revolt of the Spanish-American colonies, the province of Buenos Aires had sent an agent to the United States, named David V. Forrest. He sought to be received as consul-general, and in making his request proposed special favors in return for recognition. John Quincy Adams, secretary of state, under date of May, 1818, wrote in regard to this aspect of his plea, and without reference to the political question, as follows:

> It had not been intended to suggest to Mr. de Forest that it was in any manner incompatible with the independence or sovereignty of a nation to grant commercial advantages to one foreign state and withhold them from another. If any such advantage is granted for an equivalent, other nations can have no right to claim its enjoyment, even though entitled to be treated as the most favored nation, unless by the reciprocal grant of the same equivalent.

American national policy has been to secure identical treatment with favored-nation countries under identical or similar circumstances. The equivalence clause, which is specifically set forth in most of the commercial treaties, and inferentially stated in the others, provides that commercial favors granted to third countries shall be enjoyed by the party claiming most favored-nation treatment gratuitously, if so granted, or for equivalent compensation if granted for a price. The French treaty of 1778, as previously stated, was one of the first in which the favored-nation clause was inserted.

The Treaty of Ghent, following peace with England, stated the favored-nation treatment very clearly. The conditional construction as it has been adhered to by the United States, and has been upheld by the Supreme Court, is set forth in the diplomatic correspondence of many administrations. One of the clearest expositions was that made by Secretary Frelinghuysen in the instructions to Mr. Bingham, the American Minister at Tokio, in 1884, in conection with a diplomatic controversy with England. In this communication the secretary of state said:

> The English contention has hitherto been, under the most-favored-nation clause of the treaties, that it is absolute, and that even when Japan may bargain with any power to give it a favor for an equivalent, the like favor must be granted to England without equivalent.
>
> The Japanese contention is the reverse of this, being that if a favor for a specific condition be stipulated with any one nation no other may enjoy the favor except upon identical or equivalent conditions.
>
> The theory on which this Government views the question is akin to that of Japan. For example, the United States have just concluded a commercial treaty with Mexico by which each country especially favors the other by putting on its free list certain dutiable products. Under the favored-

nation clause of our treaties with other nations we are not bound to give their products the benefit of our free list, even though such country may not impose any duty on the articles which Mexico has free listed in our favor. But we would be willing to stipulate to give a third power the favor we give Mexico in exchange for some equivalent favor not general as toward the rest of the world.[1]

The bearing of the favored-nation clause as construed by the United States on reciprocity treaties is found in the diplomatic correspondence relating to the Hawaiian Reciprocity Treaty and the Cuban Reciprocity Treaty. In the case of Cuba, efforts to break the force of the agreement were made by several countries, notably by Germany. The United States declined to recognize the contentions put forward by foreign governments. There was not only the relation of proximity, but there were other special considerations, among them the exceptional nature of the status of Cuba in respect to the United States as recognized by the Cuban Constitutional Convention in incorporating the Platt Amendment and in other ways. The contention was not seriously pressed by any of the foreign governments. Their representations were more in the nature of manœuvers to feel out the intention of the United States.

After the Canadian Reciprocity Agreement was negotiated, several governments also raised questions as to the application of favored-nation treatment. The representations were generally of an informal character. The United States consistently replied that propinquity

1 For a concise review of the subject see "Reciprocity Treaties, Favored Nation Clauses," by John Ball Osborne, of the Department of State, Senate Document No. 29, 62nd Congress, 2nd Session. See also Moore's "International Law Digest" and the Tariff Commission's Report on Reciprocity and Commercial Treaties, 1919.

and other considerations of a special character took the reciprocity agreement out of the favored-nation treatment.

A paragraphic résumé such as has been given in the preceding pages may be thought an inadequate presentation of the historic element in tariff legislation and trade policy. But the American public mind is an impatient public mind; it cares little for the past, and is willing to absorb the teachings of experience without moralizing on them, if there be any moral. The truth is that in the varying moods of the American people on the tariff as a domestic measure, reactions from one extreme to another, from tariff boosting to tariff smashing, and so on around the circle, have afforded small field for the evolution of a consistent policy in relation to foreign commerce. There was, moreover, the lack of interest in foreign trade as a means of expanding domestic production. But in the new era, with the world-wide developments, the imperative necessity exists of determining the basis of future trade relations.

CHAPTER IX

AMERICAN TRADE POLICY (CONTINUED)

Adjustment of United States commerce to competitive conditions — Flexible and inflexible tariffs — Defects in maximum and minimum provisions of the Payne-Aldrich Act — Amendment proposed by Secretary Knox — Rejected retaliatory clause in Underwood bill — Tariff Commission's approval of retaliatory schedules — Means of securing equality of treatment for American goods — Bargaining tariffs — House of Representatives as source of revenue legislation — Dyes and potash — Export combinations — The Webb-Pomerene Law — Price-lists abroad and at home — Export railway rates — Objections to government control — Individual enterprise in foreign business.

WORLD trade is competitive trade. That is one of the commonplaces of international commerce which the United States must recognize in determining its own policy. But there are other facts to be recognized as consequences of the Great War which must be taken in connection with the competitive nature of world trade. One is the resurgence of nationalism reflected in the fiscal and economic legislation of the several commercial nations. England in her adoption of imperial preference and in her measures for stimulating and fomenting British industry in its effects abroad is the most striking example. Yet other countries also supply illustrations.

The United States must readjust its trade relations as they will be modified and affected by the policies of other nations. It must view the so-called neutral markets in their detached aspect and also as influenced by the competition of European countries. It must determine the amount of protection which shall be given domestic industries in the light of the activities of the country seeking its market, as well as with regard to the revenues to be raised from customs duties. With a benign international policy already determined, it will not be possible, nevertheless, to ignore the knowledge that as a world power in international commerce the United States still believes in its own nationalism in commercial intercourse.

Two lines of activity call for determination. One relates to the fiscal and economic policy which shall be formulated and made effective by the legislative branch of the government. The other relates partly to administrative measures resting on legislative enactment, and partly to the degree of participation or non-participation of the Government in foreign trade.

In making treaty arrangements it may be assumed that the United States will continue to adhere to the conditional favored-nation treatment. Nothing in the domestic situation calls for a change, and the readjustment of the trade policies of other nations does not furnish ground for the United States reversing its historic policy. Whether, in the commercial treaties negotiated by European countries, the unconditional favored-nation clause be abandoned, or whether it be retained does not seriously concern the United States. The conditional construction has worked well for it and the tendency will be to assume that this construction will still work satisfactorily.

A more vital question than favored-nation construction relates to general tariff policy. The question of the future, in view of the economic policies in process of adoption by other countries, is whether American trade policy shall be based on an inflexible or a flexible tariff. This is said without regard to political views. What the United States wants in order to give free opportunity for its expansion into foreign trade is equality in the markets of the world.

This was the fundamental proposition on which the maximum and minimum tariff of 1909 was adjusted. In some instances where, from the nature of the trade intercourse, there could be no exact equivalency, the principle of compensatory concessions was adopted, though the main purpose was never lost sight of. This was that there should be no unjust discrimination against American goods. The President, through his subordinates, determined in the light of actual circumstances what were unjust discriminations and what were just ones. That is, what were inherent in the conditions of the trade of the several countries which justified discrimination and what were unfriendly. The plan followed sought no favors for the United States; it merely sought free opportunity with other competitors in open markets.

The defects of the maximum and minimum provision have been indicated in the previous chapter, together with some of the remedies proposed for overcoming them. They call for further exposition. The principal defect was the lack of adaptability. The mere enactment of two schedules or sets of duties gave little elasticity. The maximum schedule was, in fact, prohibitive, and its application to any country would have meant an outright trade war, which could not have depended upon public sentiment for support. After the full possibilities of the tariff of 1909 had been exhausted, the necessity of a more elastic scale of duties became apparent.

Experience also demonstrated that under a dual tariff the establishment of a rigid free list was not good commercial policy.

The Department of State, after an experience of two years in seeking equal opportunities for American goods in foreign markets, proposed a remedy. This was outlined in a letter of Secretary Knox to the Ways and Means Committee in December, 1911. The secretary of state, after reciting the advantages which had been obtained under the maximum and minimum provisions, and the concessions made by various countries, explained where discriminations were still practised and where American trade was at a disadvantage. He remarked that similar instances of discrimination as between European nations found adjustment through means at hand for specific retaliation where conciliatory measures had failed.

An amendment to Section 2 — that is, the section containing the schedules and the free list — was submitted by Secretary Knox. It provided for varying rates to be added to the minimum rate, not less than five per cent. ad valorem, and not exceeding twenty-five per cent., applicable by proclamation when, through the investigations made at the instance of the President, he should become satisfied that another nation's laws or practices as relating either to tariffs or commercial methods having governmental sanction were inimical to that equal opportunity for trade and commerce to which American enterprise was fairly entitled. The secretary of state declared:

It is realized that the gravity of the offense should be met by a suitable remedy, one that may be graduated to meet the degree of embarrassment sought to be corrected. This might call for the imposition of additional duties of from five to twenty-five per centum upon a few commodities, or it might require that all of a nation's exports to the United States should be made subject to rates of duty higher than the existing minimum. Instances might arise where, to subject commodities now upon the free list to the payment of duties would be found to be the only measure of relief for offensive treatment; or the prohibition of imports in aggravated cases might be necessary.[1]

An adverse political majority in Congress did not take kindly to these suggestions. The proposed amendment died in the Ways and Means Committee. The revulsion of political sentiment which continued until a national administration of the opposite party came into power resulted in the complete wiping out of the maximum and minimum principle in tariff legislation. Yet while the bill was under discussion, which resulted in the Tariff Act of 1913, consideration was given to the recommendations made by the previous national administration.

In the Senate an amendment was offered to the House bill which sought to meet the situation described, and to secure equality of opportunity for American goods in countries which might discriminate. The amendment provided that the President should have power to suspend the rates assessed upon the importation of certain specified articles, and to substitute new rates, which were set forth in detail. Among the commodities upon which increased duties were to be laid were fish, coffee, tea, lemons, chinaware, coal, cheese, wines of all kinds, malt liquors, knitted goods, silks, laces and embroideries, jewelry, sugar and molasses and wool.

The amendment was adopted by the Senate, but was

[1] See Appendix A for text of the Knox amendment.

stricken out in conference with the House and the tariff of 1913 became effective without any provision for securing equality of treatment for American products in foreign markets.[1]

Experience with the tariff measure of 1913 under war conditions could not be looked on as a satisfactory means of determining whether or not retaliatory powers were necessary. But the Tariff Commission, looking to the future and judging in the light of its own investigations, apparently reached the conclusion that means of retaliation are desirable. In its report on Reciprocity and Commercial Treaties it endorsed the principle of retaliatory schedules and made recommendations following closely the maximum and minimum tariff provisions as they had been advocated by Secretary Knox. President Wilson in his message to Congress in May, 1919, approved the recommendations of the Tariff Commission and endorsed the policy of previous national administrations in seeking means to secure equality of treatment for American goods abroad. The endorsement thus given to the policy of the Taft administration and the principle embodied in the Payne-Aldrich Act therefore would seem to divest the subject of a partizan aspect.

These concurrent views indicate the possibility of a return to the maximum and minimum schedules of a double tariff. Reciprocity of retaliation as well as reciprocity of benefits may be provided on a single schedule basis. Retaliation of this character was proposed in the rejected amendment to the Underwood bill with its single schedule, but the basis is too narrow for a broad national policy. The trading or bargaining tariff is much better adapted to the conditions which the United

[1] See Appendix A for text of the rejected Senate amendment.

States will have to meet in the permanent adjustment of its commercial relations with other countries. Such a tariff assures both flexibility and elasticity. It lays a broad foundation for negotiation and for adjustment to special circumstances. With a definite affirmation of the intention of the United States to secure equality of treatment for its products in the markets of other countries, the means must be provided and the flexible schedules, within defined limitations, become the instrument. The bargaining tariff assumes that the markets of the United States are a consideration to trading countries. The term is distressing to a class of international idealists, but it is simply the recognition of the practical character of trade relations. They cannot be idealized out of existence.

In the fiscal legislation of the future friction would be avoided by the recognition, fundamentally, that under the Constitution revenue legislation originates in the House of Representatives. While the Executive, in conjunction with the Senate, constitutes the treaty-making power, the House of Representatives so often has vindicated its right to share in this power when revenue legislation is embodied in treaties that the question no longer possesses even an academic interest. The true policy would be, after establishing a double tariff system with maximum and minimum duties, to lay down the basis on which trade treaties shall be negotiated.

Congress, under this plan of legislation, might specify the articles on which reduction of duties shall be granted, or on which duties shall be increased, and also articles on the free list which may be made dutiable, and the range of duties which shall be levied on them coming from any country which discriminates against the products of the United States. The Executive should be left to determine whether such discrimination exists, and then automatically to apply the schedules provided by Congress. The common objection made to this proposition is that it vests legislative authority with the Executive, but the same objection is raised to any legislation that leaves a certain amount of discretion with the President. In commercial relations discrimination, after all, is a matter of fact and not of opinion. When Canada gave Italy, for example, a lower rate on electrical goods than was given the United States on similar goods, that was discrimination. Provision also should be made for meeting discrimination against American trade and industry through export duties, whether they be imposed by independent nations or by colonies and dependencies.

Little of the war legislation enacted by Congress was of a tariff nature or had relation to after-the-war trade. The chemical and dye industry was given encouragement against a possible German peace attack. This was done by the anti-dumping provision and the schedule of duties. The Government gave further support through the aid of its textile experts and the technical information which it has gathered on the whole subject. No direct financial subsidy was granted, as was done by England in establishing her chemical and dye industry, and none was wanted. Whether the provisions in the peace settlement and the further tariff legislation are sufficient to prevent German dumping can be decided only by experience, but there would seem to be no serious danger. What the dye and chemical industries have to meet in the future is the possibility of competition from the state-aided British dye and chemical industry.

Potash presents a situation which also calls for protective legislation. Before the war this raw material of agriculture was thought to be as much a natural monopoly of Germany as the soda nitrates are of Chile. In the early months of hostilities some of her boastful economists even declared that she would starve the agriculture of the United States so that it would not dare to become a belligerent.

The war quickened the activities of the Government, which had concerned themselves with seeking means of utilizing the seaweed, or kelp, of the Pacific, and also with prospecting the regions of possible discovery. Potash lakes were discovered in Nevada and Utah. The manufacture of potash from blast-furnace dust and from other by-products was also attempted successfully. A genuine potash industry was thus evolved out of the war necessities. The fostering care of the Government may be further necessary to bring it to a successful issue, but this essential raw material of agriculture ultimately will be supplied by the domestic production.

The principal measure enacted by Congress during the war period for the extension of American foreign trade was passed before the United States became a belligerent. This was known as the Webb-Pomerene Act. It was recommended in a stirring report by the Federal Trade Commission. A paragraph relating to the great world trade power which since the war has entered on a new course of amalgamations and combinations with governmental direction and participation is illuminating. The report said:

British manufacturers have relied upon an unusually effective merchandising organization for foreign trade, long established in foreign markets, and giving British products a superior representation there; but in various important industries they have gone much further. The most of the great coal export business is done by powerful organizations combining mine operators, marketing companies, shipping lines, and foreign distributing companies. This gives British coal its grip on the rich South American market. British cement manufacturers are united in a strong and successful union for the extension of their overseas trade. In the electrical, cotton textile, pottery, tobacco, wall paper, iron and steel, and various other industries, strong associations and combinations are important factors in foreign and domestic business. . . .

Combinations of British coal brokers fix the contract price for bunkering ships at Newport News. Four London firms known as the Fixing Board daily set the price of silver for the world, and American mining companies must sell their silver for either the English or the great Indian market to one of these four houses. . . . These combinations constantly make individual producers bid against each other, and are thus able to buy at prices near or below the cost of production. By such tactics the present contract price for bunkering ships in Hampton Roads has been fixed at five to seven cents per ton below the domestic price.[1]

The Webb-Pomerene Act was in reality of a negative character, since the purpose was to relieve exporters who might combine for foreign trade from the penalties provided by the anti-trust laws against combination in domestic trade. The measure was specifically entitled "An Act to Promote Export Trade." It showed a clear perception of the circumstance that world trade is competitive trade, and it undertook to place the manufacturers and exporters of the United States in a position to compete with other countries. They were specifically inhibited from doing anything at home or abroad to re-

[1] Report of the Federal Trade Commission on coöperation in American export trade, Washington, 1916.

strain the export trade of any American competitor.

Abroad, and especially in South America, the law was looked upon with some suspicion. It was criticized as a measure to enable manufacturers in the United States to dump their goods in foreign countries and to establish trusts which would dominate the foreign market. The critics overlooked or misinterpreted the fact that the law does not permit combinations in manufacturing, but only in selling. It has little similarity to the German syndicates, or *Kartells,* since Germany permitted, and even encouraged, combinations in the home market. Actually one motive was to enable American manufacturers to meet the competition of the German *Kartells,* for at the time of its enactment legislators could not foresee how completely Germany as a world trade power would disappear from the map.

After the armistice was signed, the disposition of American manufacturers to take the Webb-Pomerene Act at its full worth became very marked. It was seen that many advantages could be derived from coöperation as a single organization by numerous affiliated industries, some of them competitors at home. Many export associations therefore were formed. Basically, this meant going into foreign trade on a wholesale instead of on a retail basis. Experience will be necessary to demonstrate the full value of these combinations to domestic industry. It also will demonstrate what is structurally weak in the legislation, and further legislation doubtless will be required to make the original law fully effective. But the right to combine in export business, and the value of such combination in foreign trade, is already fixed as a principle of American trade policy.

Some other factors in foreign trade have not yet been given recognition. They do not require legal sanction. Among these is the question of prices. Since world trade is competitive trade, it necessarily is largely a question of prices. Quality, credits, adaptation to local peculiarities, established trade connections, transportation facilities, international exchange — all these enter into it; but in its broadest and most comprehensive sense the country whose manufacturers can sell in another country continuously at the lowest price is bound to get the trade. The American manufacturer, whether a single firm, a great corporation, or a combination of companies acting as an export association, who cannot meet this condition will be unable to get a foothold and maintain it.

This opens up the whole policy of selling goods at lower prices abroad than at home. A stigma has been put on the practice because lower export prices than domestic prices was a distinctive feature of the German state policy. It also has entered into the sale of British goods more than appears on the surface.

The plan has never been popular in the United States. It has been the familiar theme of denunciation by political orators. Manufacturers have found their catalogues, giving lower prices abroad than at home, quoted against them as a heinous indictment. It has been useless for them to seek to explain that the question is one of averaging overhead charges and keeping their factory capacity fully employed in order that there may be real economy in production. Nevertheless, the situation is one that has to be met squarely.

In the future expansion of American trade it will be even a bigger question than in the past, because of a competition that will be more powerful than the competition of Germany ever was. Are the American people willing that this competition be met? If so, they must make up their minds to acquiesce in seeing many American products sold abroad at lower prices than are obtained at home. Yet this does not mean that the practice need become universal, or a cardinal point of trade policy. It simply means that specific situations must be met as they arise.

Another question relates to the granting of lower railway rates on goods for export. It was instituted by the railroads and was upheld by the Supreme Court. For example, iron and steel products for export were given a discount of thirty-three and one-third per cent. from the domestic rate. This was German practice, but it was British practice, too. In the economic protection, or new protection policy of England, these lower rates promise to loom largely. This is notwithstanding the geographical situation of the industrial centers of England with their closeness to the seaboard, and no such thing as a long haul. It is another instance of the certainty that foreign trade policy cannot be based on abstractions. The American policy cannot ignore the policies of other commercial nations. Special export rates, however, have been merely the offset of special import rates. The Interstate Commerce Commission provided import rates to interior points from the seaboard lower than the ordinary rates, and this practice was frequently criticized as an indirect means of lowering protective duties. The real purpose was a transportation one.

American tendencies in foreign trade have shown themselves to be wholly distinct from the tendencies of the European nations. The functions of the Government are clearly indicated. American business men do not want too great or too much official interference even for beneficial purposes. The Government, through its numerous agencies, gathers and puts at their disposal technical and other information regarding foreign markets. It removes certain obstacles to their ability to compete in those markets. It now assures them ships to carry their cargoes, but it does not undertake to regulate the processes of their foreign sales.

Both the American theory and the American practice are to avoid over-regulation. The fewer restrictions on individual transactions the greater will be the facility for supplying the markets abroad. In other words, as little interference with business as possible. American manufacturers and exporters do not worry over the knowledge that they are competing not with the individual exporters of the United Kingdom or other European countries, but with the state in the abstract, or the government in the concrete, so long as they are not hampered by their own government.

Public sentiment indorses this view, partly as a result of domestic conditions. During the war there were many patriotic persons filling responsible positions and exercising arbitrary authority who thought they saw how the country could be served in its foreign trade if they were allowed to exercise this arbitrary authority under peace. The great body of American public opinion, which acquiesced cheerfully in unlimited war powers in order to carry on hostilities, resented the abuse of these war powers as a means of establishing government control of the transportation and telegraphic facilities.

The reaction was reflected in measures relating to foreign trade, although the general public had not the full knowledge of the effort to control this along theoretic lines that those actually in the business had. The struggle may not be completely ended, for bureaucracy was able to impress itself very deeply in the general business of the country. But whenever the issue becomes clear between bureaucracy, whether domestic or international, whether applied to domestic affairs or expanded into world trade, and individualism, it is reasonably certain that individualism will win.

Bureaucratic control of trade and industry in other countries is not a convincing argument for Americans, American industries during the war did not seek government subsidies. In peace they do not ask subvention of corporations which may seek to engage in foreign trade. They do not ask that the Government become a partner in financial institutions which seek to become mediums of international commerce. To them the American policy which gives the best promise of success in the competition for world trade is the encouragement to individual effort by keeping it free from too much governmental control. This is the corollary of a national policy which assures freedom from discrimination and equality of opportunity in the markets of all countries.

CHAPTER X

THE CARGO-CARRIERS

Circumstances leading to revival of the merchant marine — The golden age of American shipping — Measures for its restoration — The war boom — Failure of tariff devices — Shipping Act of 1916 — Supplemental legislation — Increased tonnage of the United States — The ship-building program — Questions of policy — The Seaman's Act — Reaction from government ownership—Competition with Great Britain.

THE United States at last is afloat. This is the outcome of events before and during the Great War. It is a positive chapter of American trade policy.

Revival of the merchant marine had begun before the opening of hostilities. This was through the adoption of a program under which the Government was to enter into competition with private companies for the construction and operation of vessels. The policy was debatable, but a principle was recognized in the legislation, and a condition was met in the actual shipbuilding program. The principle was that no commercial nation is self-supporting which depends on foreign bottoms, and that it is better for a country to pay its own people ocean freights than to pay them to foreigners. The condition was that if the promise of commercial expansion were to be realized, American shipbuilding must have a positive place in that expansion.

"We are perfectly justified," wrote an eminent European economist in the early years of the present century, "in believing that the United States will eventually regain its old-time prominence among maritime nations. The day, doubtless still far distant, when it does regain it will mark the extension of its economic influence over a very large portion of the world, if not over the entire world."[1]

The time was not so far distant, though the approach was gradual. To realize the extension of its economic influence, the United States must be in the position of controlling two thirds of the cargo-carriers of its own commerce. This is the aim of maritime nations. When the Great War began, out of an approximate world's gross tonnage of 49,000,000 tons the United States had less than 3,000,000 tonnage employed in foreign trade. When it opened hostilities with Germany this had increased only by a million and a half tonnage, part of which was due to purchases of foreign vessels to which registry under the American flag was permitted.

It is a bootless labor to review the place which American bottoms once held in the world's commerce and the causes of their disappearance. A few paragraphs will suffice for a résumé which may serve as a background. The policy in the years following the Revolution was to encourage shipping as a national industry, and the recognition of the value of income from freights was unqualified. The differential tonnage dues were supported as the means of encouraging the national industry of shipping. This principle was fully established in the maritime reciprocity treaties negotiated in the period from 1815 to 1828. In all the controversies concerning the meaning of the favored-nation clause which grew out of

[1] "The United States in the Twentieth Century," by Pierre Leroy Beaulieu: New York, 1906.

the tonnage dues, the United States rigidly held to the encouragement of native shipping.

Under this policy the golden age of the American merchant marine was reached in the two decades before the Civil War. That was the era of the clipper trade, and the romance of voyages from New York to China and back by sailing vesssls which reported their own arrival in China by returning to port before any other vessel from there could return. The destruction of the wooden ships during the Civil War and the circumstances under which, following the war, England was able to replace American ships on the ocean, first with iron ships and then with steel ones, are chapters so recent and so controversial as not to require recapitulation.

How far England's deliberate policy was to prevent the reconstruction of the American merchant marine, how far internal conditions in the United States resulting from industrial development in interior cities affording better chances of employment than the seaport cities, how far the restrictions imposed on shipbuilding in pursuance of the protective policy of buying material and employing labor at home, prevented the revival of the shipping industry are now purely speculative questions. The failure to provide adequate subsidies and subventions is not entirely speculative. The restoration of the merchant marine through government aid was a blank chapter. A few mail subsidies grudgingly granted had no effect in the absence of cargo subsidies.

Although the political party that favored the principle of subsidies was in continuous power for twelve years in the White House, and for the greater part of this period in both branches of Congress, it never was able to enact the legislation which was considered essential to the rebuilding of the American merchant marine. An expiring effort was made during President Taft's administration, when a bill granting a very mild measure of subvention to vessels in the South American and Panama Canal trade was passed in the Senate by the casting vote of the Vice-President, but failed to get through the House of Representatives.

After this failure the prospects seemed hopeless; yet this was really the end of the period of discouragement. There was slow, but sure, recognition that something must be done to reëstablish the American merchant marine and at the same time to foster foreign trade by providing greater shipping facilities. A number of legislative and executive acts were the evidences of this recognition. In the Panama Canal Act the shipping laws were amended so as to permit American registry for foreign-built vessels owned by citizens of the United States. The provisions in regard to the employment of sailors not citizens of the United States were also liberalized.

Direct effort to utilize American shipping as a means to free trade or lower tariff was contained in the Underwood-Simmons Act of 1913 in a provision granting a discount of five per cent. in tariff dues on goods imported in American bottoms. This was a revival of the policy, under another name, of discriminating duties. It was similar to the tariff act of July 4, 1789, which allowed a discount of ten per cent. of the duties upon imports into the United States in ships built and owned by American citizens. This system of discriminating duties was changed by the act of 1794, so that instead of a discount of ten per cent. in favor of American vessels, a surtax of ten per cent. was charged on goods in foreign vessels. The difference was that between encouraging the merchant marine by means of protective duties or by means of duties designed to lower protection.

The Underwood proposition was to lower protection. When this provision was pending, the diplomatic representatives of several of the countries which had treaties with the United States containing clauses to the effect that there shall be no discrimination in customs duties on goods imported into the respective countries, whether such goods be imported in vessels of one country or the other, directed attention to the treaties. The nations with which the United States had treaties containing this stipulation were the Argentine Republic, Austria-Hungary, Belgium, Bolivia, Colombia, Costa Rica, Denmark, Great Britain, Greece, Honduras, Italy, Japan, Liberia, Holland, Paraguay, Spain, and Norway and Sweden, Germany also claimed it under the old treaties with the Hanseatic Republic, Mecklenburg-Schwerin and Prussia.

Notwithstanding these remonstrances and in the face of the opposition of the Department of State, and of an opinion by the attorney-general that the discount provision was in violation of the treaties, the authors of the bill insisted on retaining it, and it was passed by a partizan majority. The matter was taken to the courts, and, when the question reached the Supreme Court, the provision was declared invalid. This ended the efforts to revive the merchant marine through lowering tariff duties.

Genuine revival came through the stimulus of extraordinary profits in the early stages of the Great War. That was when the destructiveness of the German submarines began to be felt and it seemed as though the greater part of the tonnage of the Allies would disappear. It is a stirring chapter in gainful enterprise, that purchase of old hulks, some of them already under water, and their sale and operation at an enormous profit. Despite the reckless nature of the business, few disasters due to unseaworthiness were recorded.

Hostilities, when still limited to the European belligerents, did something more than to stimulate the old hulks industry. They revived American shipbuilding on a scale never before dreamed of. The demand for cargo-carriers convinced capitalists that after peace came competitive conditions in world trade would be such that shipbuilding could be maintained as a permanent national industry. In the meantime there was the extraordinary profits of the cargo-carriers. The war boom was characteristically national in its exuberance. Munitions manufacturers reaped trifling profits on an investment basis compared with the profits of the cargo-carriers. In August, 1914, the rate on grain from New York to Liverpool was four cents a bushel; in the spring of 1917 it had risen to forty cents a bushel. Cotton was shipped to England in 1914 at fifty cents a hundred pounds. In two years the rate had risen to four dollars a hundred pounds. All the time the work of construction was pushed at a rate previously unheard of.

When the United States declared a state of war with Germany, every shipyard in the country was going forward at a runner's pace. The condition of belligerency brought all the energies of the Government and all its resources into the shipbuilding industry. The emergency needs of the Allies had given the initial impetus. The emergency needs of the United States gave the permanent impulse.

The country was not without preparation for a national policy. There had been legislation based on the program of providing an American merchant marine and the extension of foreign trade by this means. There also had been legislation based on humane motives which, it was asserted, would interfere with the operation of ships when once built. A review of the whole subject is necessary in order to fix the status of the American merchant marine.

The recognition of the principle of paying freights to a nation's own people rather than to foreigners is in contravention to the school of political economists, who hold that no artificial means should be taken to foster shipping any more than to foster domestic industry. The theory is that the only sound policy is to buy cargo space where it can be bought most cheaply, and the assumption is that with various maritime countries competing for traffic the buyer will get cheaper transportation than if he had to buy it from a national merchant marine built up by subsidies or other means of governmental encouragement. The theory of absolute freedom of commerce thus exemplified takes no notice of the benefit of paying these ocean freights to national instead of to foreign shipping lines and keeping the money in circulation at home. Its repudiation by all political parties in the United States makes further discussion of it unnecessary.

An opportunist national administration, nominally based on Jeffersonian political principles, was the instrument of adopting the Hamiltonian theory of the functions of the Government as applied to the merchant marine. The American people, despite their conservatism, have little reverence for political traditions. The conviction had been reached that something should be done to revive American shipping, and they were indifferent whether or not it was comformable to the reminiscences of the Jeffersonian era. The real difference of opinion was regarding methods.

The shipping legislation originally proposed by the administration of President Wilson was objectionable to a large body of public opinion because of its government-ownership background, and not because of its recognition of the principle of subsidies or subventions under another name. Able political leaders know that when a bad name has been given something, the object which is sought may be carried out by changing the name. Though there may be some political taunts at the reversal of policy, good political generalship recognizes that this is merely superficial and that the public will take it good-naturedly and not be too censorious on the change of front.

The Shipping Law enacted in 1916 was different from the form in which it was originally recommended by the national administration. The opposition to government ownership was so strong that this proposition was abandoned. The leading provisions of the law are those authorizing the Shipping Board that was created to have constructed and equipped, or to purchase, lease, or charter, vessels suitable, as far as the commercial requirements of the United States may permit, for use as naval auxiliaries or army transports or for other naval or military purposes. The board was authorized to charter, lease, or sell vessels thus acquired to private persons, citizens of the United States. An appropriation of $50,000,000 was made for the capital stock of a shipping corporation the majority of which stock should be owned by the United States. At the expiration of five years from the conclusion of the European War the operation of vessels by the corporation ceases and it is to be dissolved. The Shipping Board therefore may then sell, lease, or charter the vessels acquired.

The shipping corporation was formed with the Panama Canal builder, Gen. George W. Goethals, at its head; but instead of $50,000,000 when the United States became a belligerent, Congress placed an additional $500,000,000 at its disposal, and its work was begun as a part of the military operations of the Government. It superseded the war activities of the privately owned shipping lines.

The half billion dollars was added to with unstinted hand by Congress, and the shipbuilding program that was entered upon was staggering in its scope. It is not necessary for the purposes of this work to review the total cost, the billions that must be written off, or the other details of the program. What stands out is that in the midsummer of 1914, out of a total steam seagoing merchant tonnage of 41,225,000 gross tons, the United States possessed 2,706,000 gross tons. Four months after the armistice was signed, with new construction replacing war losses, the total tonnage was approximately 37,100,00 gross tons. The United States possessed 5,500,000 of this tonnage. But it also possessed the greatest shipbuilding instrumentalities of any nation in the world.[1]

The completion of the government shipbuilding program assures 10,000,000 tons. Judging from the experience of peace years, the world's commerce from 1920 on requires approximately sixty million tons. One sixth of this amount is not a large percentage, but it is a sufficient beginning and insures a reasonable amount of ocean

[1] Report of E. N. Hurley, Chairman, United States Shipping Board, 1919.

freights and insurance in the form of cash to be kept at home. The vital question of the future relates to the conditions of competition. Some of these can be determined by the United States itself. Others will not be dependent on domestic policy.

Sharp controversy was developed over the passage of the Seaman's Act in 1915. It was treated by some of the shipping companies as hostile not only to the revival, but to the continuance of the merchant marine. This was principally on account of the requirement that seventy-five per cent. of sailors on any vessel should be able to understand English. Other provisions were alleged to give foreign companies advantages over American companies, since it was held that they were not subject to the requirements of the act. It was claimed that the expenses of operation would be so great under the law as to make the continuance of steamship service unprofitable. One company actually decided to go out of business, and sold several of its ships as a preliminary.

While the act was open to objection, the tendency of some corporations to oppose welfare legislation on insufficient grounds was illustrated in this instance. The Department of Commerce, by a possible stretch of executive authority, interpreted the law benignly. War conditions, with their soaring freight rates and the ability of the shipping companies, out of their enormous earnings, to pay high seaman's wages, ended the uncertainty temporarily. Then followed the complete government control of shipping.

The Seaman's Act, with its humane provisions, undoubtedly requires amendment. But there is no reason to assume that it can be amended only by destroying the humanity in it. The question is one for adjustment by practical legislators giving due account to the experience of those who have espoused the sailor's cause and to broad-minded ship-owners. The cost of fuel is more important than the cost of labor.

Respecting general policy, the reaction from government control and operation of the railways destroyed any prospect that might have existed of developing a widespread public sentiment for permanent government ownership and operation of the merchant marine. If the Government were to continue to own and operate the shipping lines, the ownership and operation of the railway lines would seem to be the corollary. Only in that manner could the full benefit of the monopoly of ocean transportation be obtained and maintained. Government ownership and operation of the merchant marine that it has created vanishes with the vanishing of government railway ownership and operation. What supersedes it is vital to the carrying trade. After the general policy is determined, supplemental legislation will be necessary, and in the course of years a code of shipping legislation will be evolved. In the meantime the United States will be in competition with its greatest trade rival, and the circumstances under which that competition will be conducted merit attention.

England's merchant marine always has been a nationalized carrying trade, although not directly owned and operated by the Government. It will continue such, probably with closer government control than in the past and closer coöperation with the land transportation lines. This will be made possible by the governmental control of the railways. The limited territorial extent of the United Kingdom, and the nearness of all commercial and industrial centers to the seaports, simplifies the coördination of land transportation and ocean transportation under state direction. At the beginning of the war Great Britain possessed 19,250,000 gross tons. Her net losses during hostilities were approximately 3,450,000 tons. Under peace conditions her shipyards rapidly supplied the deficiency. In the year after peace the United Kingdom may be said to possess shipping equivalent to that which she had at the outbreak of hostilities. Some of this is enemy shipping, and England's future contribution, therefore, may be said to be directed to making up the world deficiency instead of her own.

The French merchant marine, in the international sense, may be looked upon as supplementing British shipping. France lost approximately a million tons during the war. This was a heavy proportion, since it amounted to nearly forty per cent. of the entire merchant fleet. These losses were partially compensated by turning over enemy ships. The French shipyards, after the war, entered on reconstruction, and French shipping must be considered in the equation of the world's shipping; but the clear indications of coöperation with England justify considering the British and the French merchant marine as allies in the competition for world trade. England starts with one advantage. This is the possession of the world's coaling stations. The strategic importance of these coaling stations cannot be overestimated. Another advantage is her possession of the tramp steamer. That is peculiarly a British sea institution. It is a commercial fleet in itself and must be reckoned with in the shipping policy of the United States.

In conclusion, it is clear that there are both domestic and international problems to be solved in determining the future of the cargo-carriers of the United States, but their existence is the chief thing. They are part of the American trade policy, and are an essential element in the foreign commerce of the United States. The United States, following the thought of the French economist, is already regaining its old-time prominence among maritime nations. The day has come that marks the extension of its economic influence over a very large portion of the world. But with many practical questions to be worked out, buoyancy over the prospect should not be allowed to expand into flamboyancy. The carrying trade of the world is not a flamboyant business.

CHAPTER XI

CONTINENTAL EUROPE AND THE UNITED STATES

Vital economic changes — Factors in France's industrial reconstructoin — Colonial commerce — Dependence on American capital — Fiscal relations with the United States — Germany's subtracted raw materials — Melting away of Naumann's Mid-Europe dream — Past and prospective trade with the United States — Importance of copper and cotton — Austro-Hungarian remnants — Belgium's rehabilitation — Italy's territorial expansion and industrial ambition — Import of capital — Scandinavian group — Spain and other countries.

TWO vital changes in the map of Europe are the consequence of the Great War. Expanded economic France is one of them; contracted economic Germany is the other. Geographical expansion and contraction is an incident of both changes, but the geographical alterations are not the exact measure of the economic modifications. Boundary shiftings in Mid-Europe relate more to intra-national trade than to international trade. In some of the newly created states they have little significance outside a limited region.

Importation of capital, principally American capital, is the chief factor in the rehabilitation of French industry. The nature of the industries entering into export commerce of France is the same that it was before the war. The genius of the French people as manifested in industrial products will find freer play in the future because there is the assurance that these industries will not be interrupted by war. There is, moreover, the assurance of the raw material resources conveyed in the restoration of the Lorraine iron-ore deposits and in the addition of the coal deposits of the Sarre.

France can go forward in her industrial career without fear of check. The restoration of the iron-ore deposits, and the control of the fuel which is necessary to their utilization, nevertheless are hedged with difficulties that make their industrial potency a deferred one. The trade of France before the war was that of a stationary population. The productivity of the country was partly limited because of the slow growth of producers. The Marne, Verdun, the Argonne, in their roster of lost lives further diminish this productivity for a decade, if not for a generation. Yet there will be progress, and gradually France will resume her old position and go beyond it.

In the past much of her European trade was the result of loans to Russia, Turkey, and the Balkan States. These loans gave France participation in the railways and other industrial enterprises, and assured the purchase of materials in France. But greater than the business resulting from these investments was the demand for the French specialties. They were not dependent on anything but the French artistic sense. Central Europe for many years will not be a heavy purchaser of these specialties, but South America, the United States, and other countries which were not affected by the ravages of the war will be steadily growing buyers.

French colonial trade is also likely to prove a recuperative force. Algeria and Tunis, and even Morocco, in their industrial and trade relations might be looked upon as an extension of the mainland of France. Their resources are as yet only at the threshold of development.

Equatorial Africa is not of the immediate future, but it, too, is a recuperative resource. Madagascar is more valuable in the commercial sense as a tropical possession than the French Congo. Indo-China promises better than either. The scattered overseas colonies such as Guadalupe and Martinique in the West Indies, Tahiti in the Society Islands, are worth passing consideration. They are items in world trade.

The full extent of France's colonial possessions and their economic value were little appreciated before the war except by the students of international economics. Yet they were a cardinal feature in French policy, developed by statesmen who rejected the theory that because the French were a home people and not given to emigration they could not develop into a colonial power such as England. They must be looked to in the future as a sustaining source. It is more than probable that the tariff policy which made their business valuable to France will be continued, especially since the adoption of imperial preference by England. The substance of this policy was uniform tariff treatment for the principal colonies, although there were some exceptions. The same general tariff applied to the colonies as to France herself. There were no duties on goods from the colonies imported into France, and France paid no duties on products exported to the colonies.

The dependence of France on American capital for economic rehabilitation makes the commercial relations of the two countries of special significance. The nature of the commerce is simple. It is an exchange principally of raw materials such as copper and cotton, food stuffs and some forms of machinery, for articles of luxury. Champagnes and liqueurs, silks, fine textiles, the various articles of personal adornment which gratify the cultivated taste and uncultivated vanity, all the great variety of artistic products which add to the refinement of civilization, were imported into the United States.

In enacting tariff legislation all political organizations in the United States have favored the imposition of heavy customs duties on luxuries and articles of superior quality. This has made the scale of duties applied to France seem harsh as compared with those on the products of other countries. France, in her own view, was penalized for being the most artistic nation in the world, and for having the soil and climate that produced the most exhilarating beverages. When tariff legislation was under consideration France usually protested in proper diplomatic form against the proposed duties as destructive to French industry and certain to cause decreased exports. Nevertheless, the high schedules were imposed, and the trade did not substantially decrease. The growing wealth of the United States gratified itself by augmented purchases of champagne and silks and fine textiles and artistic products generally, so that after the brief interval of uncertainty which always follows tariff readjustment it was disclosed that France was still selling heavily to the United States.

In the future, when the French industries resume their normal production, the United States will be a more valuable customer than ever in the past. National prohibition will destroy the market that once existed for champagnes, but with the very large increase in the number of persons who are able to buy articles of luxury the effect of this loss will be only temporary.

American fiscal policy will recognize the special conditions of French industrial rehabilitation. French fiscal policy has not followed the course of the original sentimental friendship for the United States. It has taken a business view of the trade relations. The protective movement under M. Meline's leadership, which culminated in the high tariff of 1909, while having the special purpose of the protection of agriculture, incidentally bore heavily on manufactured products from the United States. In the adjustment of the maximum and minimum tariff administrative concessions supplemented concessions on the schedules of customs duties, but the United States was not granted the full minimum tariff, on the ground that this was devised with special reference to the commercial relations of France with other European countries.

The American Government recognized the reasonableness of this contention. In the future further tolerance will unquestionably be shown. As an abstract proposition, France might be expected to admit automobiles from the United States at a duty which would enable manufacturers to supply the French market. But France actually will seek to restrict the importation of American automobiles in order that her own motor-car industry may be built up, and the United States will not complain.

Germany, before the war, had a foreign trade amounting to five billion dollars. The iron ore of Lorraine, the coal of the Sarre, the ore of Luxemburg, and the ore and coal of Silesia were the foundation of much of this trade. With these economic units subtracted, it would be difficult to estimate what foreign commerce would remain had no other conditions been imposed by the victors; but with the full terms imposed it is beyond the range of estimate what the foreign trade of Germany may be in 1925 or 1930. Yet there is the inescapable fact that Germany must continue to be in world trade if she is to pay her war debts to the victors.

Business with continental Europe — that is, with neighboring countries — will be the normal means of beginning. After that will come the overseas trade. The degree to which the politico-economic militaristic system developed this trade will be tested in the circumstances which have eliminated militarism, and which have subjected the economic factors to the control of the victors. The literature of the German *Kartell* and of the entire system was so copious even before the war that its study required abundant leisure. During the war the tendency was greatly to exaggerate the effect of the German policy. This was natural, but its continuance is apt to give a wrong perspective. It may be remarked again that German trade and industry were not the work of supermen. Nor was their growth entirely due to a definite policy formulated by men who planned long years ahead. German foreign trade in the five-year period immediately following Sedan — that is, from 1870 to 1875 — was about the same as in the period from 1890 to 1895.

When Germany precipitated the war there had been some signs of a reaction from monarchial state socialism and from the syndication of industries. The nationalization of the coal mines had been effectively resisted. The early period of the war even showed a determination on the part of some of the industrial captains to oppose further nationalization after peace came. This was when it was assumed that Germany would be victorious, and as one of the results of victory would proceed to give expression to the state as the sole agency of industrial organization. Dr. Gustav Krupp, head of the great works at Essen, in a lecture delivered in Berlin warned against any effort to nationalize the munitions industry after the war. His views, while of little moment in Germany as a vanquished country, are of interest to some of the victorious countries.

State management, he held, might be justified where purely domestic monopolies were possible; but where they had competition at home and abroad, the complications of state control with parliament in the background must deprive any industrial undertaking of the absolute elasticity and freedom of movement essential at a given moment. He declared:

> When we realize the hardness of the economic battle with which we are inevitably faced against countries and peoples which still find salvation in the freest activity of their individual energies, we must all practice the greatest caution in the treatment of such fundamentally economic questions, and we must remind ourselves again and again how easy it is to take a step in the direction of increasing the influence of the State and how difficult it may be to retrace such a step however serious its consequences may prove to be.[1]

The trade of Germany with central Europe has found some prophets who in defeat revert to what was meant to be a marching song of victory. Notwithstanding the creation of new nations, they affect still to see the possibility of a central Europe such as the one which excited their imagination in the early period of the war. This was the middle-Europe scheme of Friederich Naumann. He expanded Fichte's idea of a self-contained commercial state. As a member of the Reichstag he had openly antagonized the aims of the militaristic group. As Pastor Naumann, the social re-

[1] Extract from Berlin Lecture quoted by London "Times."

former, he had advocated the welfare of the masses with less of state interference than characterized the German system. The thesis promulgated in his book, "Mittel-Europa," was that the economic and political frontiers of central Europe had turned against France after Sedan, and that the eastern frontier had been established by the Berlin Congress in 1878, and the Austro-Hungarian alliance in 1879.[1]

Germans, Magyars, Poles, Bohemians, and other races, he explained, had not yet formed a national type, and central Europe was still lacking development as a national unit. On the economic side it was proposed that central European commerce should be conserved by means of the various chambers of commerce and similar trade organizations. Free trade between Germany and Austria-Hungary was to be provided, and a joint policy was to be adopted in regard to traffic, taxation, and international finance. After that union, which of course meant the absorption of the dual kingdom by Germany, the expansion would cover the Balkans, and then Eastward Ho! *Drag Nach Osten* was the sop to the Pan-Germanists and the proponents of the Bagdad Railway.

It was claimed for Naumann that he was really a protagonist of a new form of Teutonic idealism based on geographic unity. The Teutonic imagination for a time was responsive to his suggestions, and the book had enormous popularity. But if Nauman really was a proponent of a new form of idealism, the diseased

[1] "Central Europe." A translation by Christobel M. Meredith from the original German of "Mittel Europa," by Friedrich Naumann: New York, 1917.

mind of German scholarship quickly gave a materialistic interpretation to his ideals. They were discussed in the aspect of expanding Germany's commercial influence. The popular appeal of the book, as well as the appeal to the diseased scholastic mind was largely due to its tribute to Teutonic egotism.

The geographic unity, of which Naumann dreamed, is destroyed by the new states that have been set up. The national type to be formed of Germans, Magyars, Poles, Bohemians, and other races is denationalized by the effort to conform the races, so far as practicable, to geographic lines.

Yet some ideas in Naumann's book survive. Though geographical unity, as the basis of a Teutonic mid-European state, is unrealizable, geographic contiguity assures a definite amount of trade. Propinquity counts for the exchange of products. Nearness assures markets. Germany, in the heart of central Europe, has many products with which she is able to supply her neighbors. This is the first step in getting ready for the foreign trade that means overseas trade.

In the period before the war trade relations between the United States and Germany showed a very decided balance in favor of the United States. The German Empire was principally a purchaser of raw materials, and cotton and copper were the chief commodities imported. The United States supplied substantially all the cotton and much of the copper, along with some semi-finished products which became the raw materials of German finished products. At the outbreak of hostilities the exports from the United States to Germany were $332,000,000 annually, and the imports from Germany $189,000,000. The imports were chiefly textiles and chemicals and dyes, although there was a large range of miscellaneous commodities.

The United States received favored-nation treatment, having the benefit of the conventional tariff rates. This concession was secured during the adjustment of the maximum and minimum tariff, the arrangement in force up to that time having been one in which many American products were discriminated against. After granting the conventional rates, Germany, in making a new treaty with Sweden, failed to give a few American products, among them some rubber goods and crucible steel, the new rate, but this did not affect the general principle.

What remains of the German Empire still requires cotton and copper from the United States. Although copper for the electrical industries might be obtained elsewhere, at premium prices, economically Germany cannot afford to make the attempt. The great German metal syndicate, with headquarters at Frankfort, which dominated the metal markets of the world and enabled Germany to buy metals cheaper than in the countries of production, is dead, never to be revived. Germany, therefore, will have to buy copper on the same terms as other countries, but this in itself is not an economical disadvantage.

American cotton is absolutely essential to the German textile industries. The importation of these two products, cotton and copper, is therefore the basis of the future trade relations between the United States and Germany. What Germany will send to the United States in return for them is one of the unsettled problems. She will not be able to send chemicals and dyes, and the probability is that she will have a larger balance of trade against her than in the past.

Austria-Hungary was not a notable factor in the trade between the United States and central Europe. The total commerce both ways rarely reached $40,000,000. The exports consisted of hops, magnesite, which is the material used in lining furnaces, chinaware, and artistic products, such as Bohemian glass. The imports were principally raw materials, such as cotton and copper and tobacco for the government tobacco monopoly. Some agricultural implements were also imported, chiefly for the wheat-fields of Hungary.

Bohemia supplied the greater part of the exports to the United States and the new Czecho Slovak state, of which Bohemia is the principal part, therefore will be the real trade factor in the partitioned Hapsburg Empire.

Belgium receives a slight addition to her territory under the peace settlement, but it adds little to the martyred country's economic resources. Belgium's marvelous industrial organization had enabled her to build up a foreign commerce approximating a billion seven hundred and fifty million dollars. Though the imports exceeded the exports by a quarter of a billion, there was actually not an adverse balance of trade, because a part of the imports were distributed to other European countries. The nature of the commerce was largely one of exchanging manufactured products for food products and raw materials of industry.

Some of these Belgian industries, such as the manufacture of glass, competed with American industries, and when Belgium was in the grip of Germany several glass factories sprang up in the United States in order to meet the demand previously supplied by Belgium. The trade with the United States was approximately a hundred and ten million dollars, with the exports exceeding the imports by forty per cent. It may be many years before Belgian industries are fully reconstructed, but that this will be done in time is a certainty, and the country will therefore continue an excellent market.

Italy is one of the victor countries in which the economic expansion is not likely to be commensurate with the territorial expansion. The Austrian Tyrol, Trentino, and the shores of the Adriatic that are conceded under the peace settlement, have no great productivity. They add little to the natural resources except as may be required for domestic consumption. Notwithstanding the gratification of the national aspirations and the encouragement to national ambitions, Italy continues lacking in natural wealth. The new Italy requires cotton, copper, coal, and mineral oils for her industries, just as did the old Italy. The probability is that these will be needed in much larger quantities than formerly, because industrial development will be one of the chapters of the national political development. Nationalistic sentiment will tend to national industries, and fiscal and economic policies are likely to be molded in accordance with these aspirations.

Cotton for the textile industry will be imported in increased quantities. The silk industry alone has the raw material at hand. Wool for the woolen mills comes principally from abroad. The production of flax is not sufficient for the linen industry, although it is a valuable domestic raw resource. The same statement may be made of jute. Hemp furnishes a native raw material for threads and textiles and cordage, with a surplus for export.

Raw silk is Italy's principal export product, along with fruits and edible oils. The quantities are not sufficient to assure a trade equilibrium, but they are enough to provide a satisfactory commercial movement. The likelihood is that Italy in the future will need to import capital as much as raw material in order to carry out her projects of industrial development. Machinery will be her essential element in the importations for new industries. Much of the capital will be supplied by the United States. The United States will be a very important agent in supplying industrial fuel. The trade relations of the two countries will have something like a spontaneous rapprochement.

The Scandinavian countries and Holland formed a neutral group during the war. Their geographical situation exposed them both to Germany and to England. At the same time it enabled them to supply food and to draw legitimate profits from both sets of belligerents. This they did without prejudice to their own interests. All these countries, while they suffered inconveniences, were made richer by the war, Sweden and Holland perhaps to the greatest extent, and then Denmark and Norway. They have no vast war debts to pay the interest on, and they have no ravages of war to be repaired.

The relation of the United States to the Scandinavian group and to Holland in the peace-after-war is not likely to be different from what it was during the peace before the war. The United States will continue to sell Holland wheat and other foodstuffs, and some manufactured commodities for the consumption of the Dutch people. Holland, however, may not receive the full geographical advantage of transit trade that she enjoyed in the past, since the quantity of manufactured products exported to Holland ports for distribution throughout central Europe is likely to be diminished.

The Scandinavian countries receive from the United States raw wheat, flour, and other cereal foods which they do not produce in sufficient quantities for their own use. They also receive mineral oils and copper. From them the United States obtains principally wood pulp and special products. This is the normal trade relation, which is not likely to be altered.

Switzerland is an isolated economic unit in the heart of central Europe. From the United States Switzerland bought food products and raw materials of industry, principally cotton. In exchange she sent the cotton fabricated into fine textiles and various articles of artistic workmanship. That is the trade of the future as it was of the past.

The Iberian Peninsula is a group unit isolated from the rest of Europe, and in overseas routes not so greatly isolated from the United States. Portugal's exports in the past were chiefly cork and wines. National prohibition destroys the market for wine and reduces that for cork-wood. Yet Portugal will require some products from the United States. She will pay for them in cash obtained from the sale of her products to other countries. Spain's commerce, present and prospective, is worthy of attention across the Atlantic. Her exports of wines, olive oils, and fruits have enabled her to maintain a favorable balance. She needs American coal and cotton, and a large variety of manufactured articles, especially iron and steel products. She needs also American capital, which goes into her railways and public utility enterprises. This means the purchase of material in the United States.

In the larger sense continental Europe should be viewed as a whole. Enlarged France, diminished Germany, newly made central European states, the Scandinavian countries, and the Iberian peninsula, are all to be viewed in world trade with the United States as a potent factor in their commercial relations.

CHAPTER XII

RUSSIA AND THE NEAR EAST

Constantinople as an international mart — The Black Sea a world lake — Jugo-Slavia and the Adriatic — Bulgaria and Rumania — No Balkan customs union — Greater Greece — American enterprise in Turkey — Russian economic units — Survey of the whole — Commerce of the past — Trade relations with the United States — Territorial subtraction — Agricultural and mineral resources that remain — Siberia's status — Foreign capital the hope of the future.

CONSTANTINOPLE, as a consequence of the Great War, becomes a world mart. The new American merchant marine brings the United States to this mart. The two forces react one upon the other. The balance of power in the near East was once described as the flaming sword on the road to Byzantium. The balance of power, as an economic element, disappears. The sword no longer flames. It is tempered and sheathed. The bar to commercial progress, because of political rivalries, is removed. Yet in the commerce of the future the United States may prove an unbalancing power to European trade expectations.

Constantinople, no longer the pawn of European powers nor the prize of the world in Napoleon's sense, takes its rightful place as the gateway to an international commerce that is not confined to the Old World. Freer Constantinople, neutralized and internationalized, is the recognition of the historic city of the Bosporus as the inlet and outlet of the Balkans as well as of the Black Sea, and the tributary region of southern Russia and Asia Minor. But it is more. It is a world entrepôt freed from the dead hand of the Turk.

England, among commercial nations, has most cause to rejoice at this outcome. When the Trepoff Treaty of 1915 was made public, with the full acknowledgment by the Entente allies that Constantinople was to become Russian territory, the knowledge was accepted gloomily, but as one of the necessary consequences of the alliance with the great European-Asiatic power which for the time had held the German military machine in check. Yet there were forebodings of the future and of the degree to which the freedom of commerce of the near East might be hampered under the domination of the czars. The foreboding melted away with the vanishing of Russia as a single power.

Under the new conditions the Black Sea becomes a world lake instead of a Russo-Turkish lake. There is the Balkan back-wash, but there is also the assurance of free ports for other regions. Freedom for the United States, with its merchant marine in the ports of the Black Sea as in the open oceans, is likewise guaranteed. There is all this for England, too, and also the Danubian inlet, with the large volume of British commerce borne through it. Before the war this was more than half the total Danubian trade.

The new map of the near East does not radically change the nature of the trade of that extensive region. Notwithstanding the political boundary-line, there is no distinct European-Asiatic frontier in its commerce. The opportunities for business are not dependent on racial and linguistic lines, and they are in some measure independent of the conflicts which are indicated by geographical boundary-lines.

Jugo-Slavia both as to its resources and its trade is principally an Adriatic question, notwithstanding Serbia's outlet to the Ægean Sea. No Austria will ever again be able to coerce Serbia politically by blocking exports overland. No more "pig" treaties, under which Serbia was forced to make humiliating political concessions in return for the privilege of getting her small stock of surplus farm products to other markets, will be celebrated. Jugo-Slavia, as a whole, is less a farming region than Serbia as a part of the new state, though the principal resources of the new nation are, nevertheless, agricultural, and the trade will be that of an agricultural country. The surplus farm products are to be exported, and farm implements and other manufactured commodities to be bought in return. Some railroad building will be necessary, and some minor industrial enterprises will start up. For these foreign capital will be required, and the country which furnishes the capital will get the bulk of the resultant trade.

Diminished Bulgaria, notwithstanding the territorial contraction imposed by the peace settlement, still has considerable resources. These are principally, but not entirely, agricultural. The product best known to the world, attar of roses, is not an unimportant element in international trade, but there are abundant resources of production in Bulgaria. After political readjustment the tendency will be to develop these resources, and again it will be a question of foreign capital.

Rumania, territorially and in natural wealth, as a result of the war becomes the most important of the Balkan States. The oil-wells, notwithstanding that several years are required to restore them from the German destruction, have lost none of their productive capacity. It is, however, in Rumania's grain-fields that the greatest natural asset lies. The reapportioned territory is partly wheat territory, and this adds to the quantity of cereals which Rumania will have for supplying Europe's food market. Agricultural machinery will continue to be among the leading imports, but there will also be a large variety of other manufactured commodities. Rumania potentially and actually is the most favored region of the Balkans for the countries which seek markets abroad. The assurance of an outlet through the Black Sea is moreover a guaranty of national progress.

The remnant of Turkish territory left in Europe is principally agricultural. It may be viewed, however, in the economic and commercial sense as a part of the Balkan region. Its trade might be added to or subtracted from any of the Balkan countries without inconvenience.

The project of a Balkan customs union to unite the countries economically, while they preserve their political identity, though a sound one, does not come within the realm of early probabilities. Racial and religious antagonisms are too pronounced, and political antipathies too strongly developed to hold out such a prospect. But in the broadest sense the whole Balkan region may be treated as one market, and also it may be viewed as a single field for the investment of foreign capital.

The tendency in the past has been to view the trade relations of the Balkans as essentially European. Geography supports this view. But geography is not conclusive. American farm machinery always has had a good market in the agricultural districts, and other manufactured commodities have not been without markets. The trade that was obtained was despite the difficulties of transportation, and the settled practice of buying through London and Hamburg. American ships plying directly between the Atlantic and gulf ports and the Black Sea ports overcome this handicap. They also furnish a direct market for the relatively few commodities that the Balkans have for export to the United States, and insure the increase in trade which always follows direct transportation facilities.

Greater Greece offers a larger market for the products of the United States and also seeks a larger market for her own products. Greece finds an excellent demand in the United States for currants, olives, tobacco, and other agricultural products, as well as for fine marble. She is a customer of the United States for coal, raw cotton, petroleum, edible oils, and miscellaneous manufactured articles. She is also a borrower, and one means of amortizing her loans is by the sale of her products abroad. She is moreover an investment field, and the capital invested in industrial enterprises seeks material in the United States.

Asiatic Turkey is both Black Sea and Mediterranean trade territory. One portion of this territory has a special relation. That is Asia Minor. The so-called spheres of influence in Syria had a distinct significance in international commerce before the war. The significance is much less now, because the European countries which arranged the spheres among themselves have not the capital to carry on the railroad building and other enterprises that were the basis of the Turkish concessions. The United States has the capital. It also has the steamship facilities for the direct traffic to Beirut, Smyrna, Adalia, and Alexandretta, which are the gateways to the interior. These are the signs, or the map-pointers, which indicate a greater share for the United States in the commerce of this region.

In its widest application, the future trade influence of the United States in the near East is dependent on loans and investments. Loans by the Government of the United States to Serbia, Greece, and Rumania in their totality have not been large, but they have given the country a definite stake in the orderly political and industrial development of the whole near East. The question of the future is how far this situation will induce private capital to venture into large constructive enterprises.

During the old régime of Turkey one such experiment was tried. It was at the period when everything depended on Turkish concessions, and the sultan was not chary of granting concessions. The troubles which the concessionaries might have with those who had obtained previous concessions did not concern him. In 1911 an American syndicate, with a capital of fifty million dollars, was organized. It had extensive plans of railway construction, public works, and kindred developments. Considerable resources were opened to it for exploitation. For a time the project seemed likely to succeed, and a new market to be created for material from the United States. Then the blow fell.

The hand of Germany was stretched forth, and the American syndicate was blocked at every turn. The Bagdad Railway was not in reality endangered by the American plans, but Germany would have no competition from across the Atlantic. Diplomatic representation and protests made to the German Government were met with cynical denials of Germany's responsibility.

Berlin had no knowledge that its famous ambassador at Constantinople was interfering. Certainly the German Government had not instructed him to interfere. And so on. Compared with his success in blocking British enterprises in Asiatic Turkey, his killing off American enterprise was child's play; but his work was effective. Financial disaster overtook the American capitalists, and ultimately they took their loss and withdrew.

This experience would not be repeated under the new conditions, but the knowledge of it still lingers, and is likely to make American capitalists hesitant. Yet there is no more inviting field for investments abroad than in the near East, and there is none which may be made with greater benefit to the peoples of those countries. Though it may be slow, American capital will yet find its way to Constantinople, and the trade of the United States with the near East will be visibly increased. Demand will be enhanced for industrial as well as for agricultural machinery, oil-motors and tractors, hardware, machine tools, electrical supplies, engineering equipment, railway material, automobiles, office appliances, flour, cotton-seed oil, cotton goods, and miscellaneous merchandise. The general trade will grow with the elimination of London and Hamburg as middlemen, and the establishing of Constantinople as an American distributing headquarters, with direct steamship service to and from New York.

The Russia of the past covered more than a seventh of the land surface of the whole world. Its population exceeded 170,000,000 inhabitants. Its resources were as varied as were the climate and soil of a territory so immense. The developed resources were chiefly agricultural, but ancillary to these were the fisheries, the furbearing animals, and the forests. There were also the mineral deposits — iron, coal, manganese, oil, and the precious metals.

In 1914 approximately 194,000,000 acres were given over to the production of bread cereals, principally wheat and rye; more than 43,500,000 acres to oats; and 8,000,000 to potatoes. In 1915 the entire area of these agricultural products was 323,340,000 acres. In addition there were 4,500,000 acres of maize and 28,500,000 acres of barley. In quantitative terms the production of wheat was 24,800,000 short tons; of rye, 25,475,000; of oats, 14,359,000; and of potatoes, 24,838,000. The mineral wealth comprised the oil-fields, second only to the United States in production; the manganese of the Caucasus region, exceeding the combined output of India and Brazil; and the iron and coal of the basin of the Don.[1]

A glimpse of the whole as an economic unit by far the greatest in the world is thus given in order to judge the prospects of what remains after huge regions are subtracted from the whole. In passing it may be said that old Russia really comprised a score of economic units. Out of these, treated as a block, was evolving the economic and commercial policy of the Russia that during the first two years of the war was the savior of England and France. This policy in its inception was the work of a single brain, that of Count Sergius Witte.

The national economic policy of protection was initiated under autocratic government. Witte and the pro-

[1] For an instructive and comprehensive survey of the resources, trade, and industry of the former empire, see "Russia, Special Consular Reports No. 61, Department of Commerce," Washington, 1913. See also "The Russian Year-Book," London, 1915.

gressive Russian statesmen of his school saw in it the genesis of a new national life. The foundation was the development of home industries by high duties on manufactured articles and raw material which the country itself was able to produce. The plan was so directed, for example, that foreign manufacturers of agricultural implements and electrical equipment found it advisable to establish branch plants, or what were nominally branch plants, in Russia. Essentially, they were domestic industries. The textile mills of Warsaw and Moscow, the chemical factories of Lodz, were evolved as protected industries. The commercial policy was not the direct corollary of the economic policy, since foreign trade was not its leading motive. Trade treaties were negotiated under the dual tariff system similar to that of Germany, with the unconditional construction of the favored-nation clause.

Russia prospered under its economic system. In 1913 the total foreign trade was in round numbers a billion and a half dollars. The imports were in excess of $707,000,000, while the exports approximated $783,000,000. By far the larger part of this commerce was that of Russia in Europe. This ranged as to exports from ninety to ninety-one per cent., and as to imports from eighty-three to eighty-five per cent. Finland, which, notwithstanding partial autonomy, was counted as a part of the empire, was credited with about four per cent. of both exports and imports. Asiatic Russia provided twelve per cent. of the importations and six per cent of the exportations.

Germany had the lion's share of the Russian trade. The year before hostilities broke out the imports from the German Empire amounted to 47.5 per cent. of the total, or a fraction under $336,000,000. Some of these imports were not of Teutonic origin, but Hamburg had the middleman's profit out of them. On her part, Germany imported commodities from Russia, principally agricultural products which did not compete with her own, to the amount of $233,000,000, or approximately thirty per cent. of the total Russian exports. Propinquity accounted for part of this commerce, which was border trade. This circumstance usually is overlooked in discussing Germany's commercial overlordship of Russia.

Statistics furnish no trustworthy measure of the actual trade between the United States and the Russian Empire in the period before the war. This is because of the large quantities of merchandise which were transhipped chiefly through Germany, though some of the transhipments were made at Mediterranean ports. American consular investigations provided convincing evidence that the statistics were unreliable by demonstrating that in a single year, when the figures showed importations of cotton valued at $10,000,000, the actual importations exceeded $50,000,000. In addition to raw cotton, Russia imported from the United States agricultural implements for primary use and semi-finished parts for the factories that were established, railway equipment, and much miscellaneous machinery. The United States took from Russia raw wool, hemp, flax, hides and skins, fuel oil, licorice-root, and manganese ore.

The United States was able to maintain its trade with Russia under the absolutist government during a situation which was fraught with grave possibilities of interruption. The diplomacy of President Taft's administration, by forestalling a congressional resolution, avoided international offense when the treaty between Russia and the United States was abrogated by the action of the Executive because of Russia's discrimination against the Jews. The abrogation of this treaty, while in response to popular sentiment, left the United States without grounds for asking a continuance of the conventional tariff of Russia, which placed it on the same footing with other nations.

Through the diplomacy exerted by Secretary Knox, Russia continued this treatment under a device of her own, although there was a strong demand among the bureaucratic classes for retaliation by discriminating against American products. When the czar's government was overthrown, the American Ambassador was instructed to negotiate a commercial treaty with the provisional government that took its place, and later the negotiations might have been carried on with the Bolsheviki succession had not the nature of that movement made negotiations impossible. In consequence, there is no American trade treaty with Russia which would be effective with any of the fragments of the czar's empire.

Future trade relations of some kind must be established, but whether with a central Russia or with several separated units only time can determine. This is as true of other countries as of the United States. Some of the principal subtractions from the Russia that was are undoubtedly permanent. Poland comprises one of the separate economic units. Russian Poland formerly sent flax and other agricultural products to the United States. The flax is still needed. The cotton-mills of Warsaw were largely dependent on American raw cotton. They have the assurance of that product in the future. The loss of Poland is to Russia the loss of the principal industrial unit. Only Moscow rivaled Warsaw as a manufacturing center.

Other elements, territorially speaking, are separable, and separated themselves; but there is the prospect that they may some day become parts of a federalized Russia. The Ukraine is by far the most important of these districts, although the whole Black Sea region might be included. The black soil of the Ukraine furnished the bulk of the wheat that was raised for export, and wheat shipments made Odessa a seaport rivaling Buenos Aires.

The basin of the Don, with its extensive coal deposits and iron ore, gives the district adjoining the Ukraine an industrial potency that insures the development of an iron and steel industry of considerable proportions. The metal industry was on a solid foundation when the Great War came. Russia had even shipped steel rails to India, but it is still a question of the future as to what political unit will control this economic unit. The district, geographically, does not require to be separated from Russia proper. Yet there is the Black Sea outlet, with the separatist status of the Ukraine to offset this geographical relation.

The Caucasus, with its manganese deposits, is the richest mineral region yet exploited in Russian territory. It may adhere to the old Russia, or it may disregard the mountain barrier and unite with Transcaucasia. This presupposes that Georgia and Russia-Armenia form a single political government. The economic resources of the Transcaucasian region are more a part of Armenia than of Georgia. They are really the Caspian region, for Baku is the great oil-producing district. It was here that Marco Polo observed the fountain of oil which discharged so great a quantity as to furnish loading for many camels, and which was also good for burning, so that people came from distant parts to procure it for their lamps. Five and a half centuries have not lessened to the people of that region the value of the oil observed by the Venetian traveler, but its uses have extended far beyond the neighboring country, and it has become a world commodity.

Siberia, both geographically and politically, may be viewed as one of the prospective subtractions from Russia. Economically, it is not so easy to delimitate the frontiers of European Russia and Asiatic Russia, notwithstanding the existence of the Ural Mountains. The dairy products of western Siberia find their market in Europe. When the iron- and coal-mines are developed, they, too, may be looked upon as European. The gold-mines are too widely scattered to be assigned to either section to the exclusion of the other. But while the dividing-line may not be exactly determined, Siberia as a geographical and political entity looks toward the Pacific. Omsk may one day become the capital of a Pacific nation wholly separated from European Russia. Vladivostok already is linked with San Francisco and Seattle.

The field is too speculative for satisfactory efforts to determine what will happen to the separated Russian units. Yet whether there be a federalized Russia or a series of unfederated states, there will still be the immense territory that was once the Russian Empire, with vast resources to develop and with an immeasurable foreign trade in prospect. Some of the units may continue to get along under the soviets, and modified Bolshevikism may prevail. Others may reject the scheme entirely, build up a social organization on the old basis, and secure recognition as nations. But whether industrial socialism obtains in some parts, or whether it collapses entirely, the economic conditions will not be changed.

Questions will arise whether certain of the regions which are erected into sovereignties or semi-sovereignties will continue as mere sellers of farm products and buyers of manufactured commodities, or whether they will work up their raw materials into semi-manufactured products that will bring higher prices than the primary materials. It is a question whether a portion of the grain of the Ukraine will be made into flour for export, or whether the whole crop will be exported as wheat. The problem will present itself whether to utilize a larger proportion of the iron ore and manganese in the development of iron and steel industries with the coal available, or whether the raw minerals shall be exported without reference to their value in domestic industry. The question will arise, too, whether it is better to supply other countries with manufactured lumber or with rough timber, and whether a larger proportion of hides and skins be employed in leather and kindred industries. In some of the agricultural regions the feasibility of feeding a larger quantity of grain to the native cattle and raising beef for export will have to be tested.

Whatever policies may be determined by the separated or the reunited units, there are still the immense natural resources that will have to be developed in the natural progress of civilization. Some of the factors in determining these questions cannot be settled entirely from within. Chief among these is that of foreign capital. Much of the big foreign debt which Russia incurred was dissipated by the corrupt bureaucracy. Nevertheless, the Transsiberian Railway was built, other railways were constructed, and some of the loans negotiated under Witte were utilized in very solid forms of industrial development. The threatened repudiation of these debts by the Bolsheviki is a passing incident. In the end, Russia, or the subtracted and the remaining parts of Russia, will pay.

This will be the invitation for foreign capital again to enter Russia. When this invitation comes in this form, the status of Russia in world trade will again become definite. The years may be many before this occurs, and they may be few; but the outcome is certain. Economic reconstruction, which must supplement agricultural production, cannot come solely from within. Russia must adjust her system of production and distribution to the rest of the world, whatever political vagaries she may show.

CHAPTER XIII

ECONOMIC SOUTH AMERICA

The Southern Continent a world market — Export taxes a Spanish colonial inheritance — Limited resources for manufactures — Agricultural and mineral products the source of purchasing power — Brazil's rubber and coffee — Iron ore and manganese — Decentralized fiscal policy — Argentina's grain and live-stock — Lack of minerals — Uruguay and Paraguay — Chile's copper and nitrates — Protective tariff tendencies — Peru's varied products — Protective and export duties — Bolivia and Ecuador — The Caribbean region.

SOUTH America is the most inviting commercial field that the world has to offer. It is the only great region which actually may be regarded as neutral trade territory under the conditions that govern the new era. As the most promising market in all the world, inevitably it becomes the field of strenuous competition. Before it can be understood as a market, it must be comprehended as an economic block, and with knowledge of the economic policies of the several countries that constitute the block.

Description of the different regions of the Southern Continent and their productive resources shows little deviation from the economic status of the sixteenth century to that of the twentieth century. The colonial era was the record of the trade monopolies of Spain and Portugal. These monopolies were the reflex of the age; they were common to all the European countries which had overseas possessions. The buccaneers and the pirates, who were tolerated and protected by their home governments, were the effective means of modifying the trade monopolies.

The economic history of Spain in South America revolved around the West Coast and the Caribbean region. On the Atlantic coast, Portugal, with her Brazilian possessions, was the colonial power. The region tributary to the Plate, with its agricultural wealth, was little valued. It was administered by the Spanish viceroys from their seat of authority in Peru.

The economic policy of Spain, with its basis rooted in commercial monopoly, looked only to the exploitation of the precious metals. When Pizarro, with his hardy horde of greedy adventurers, swept through the Inca empire of Peru, agriculture was the prized art of the natives, and gold was the earth's product which offered no temptation. Under the Spaniards, mining became the prime pursuit, if not the primal necessity. It was the same in Brazil. After the Paulist Fathers discovered gold in the river-beds agriculture was abandoned by the Portuguese colonists and by the Government.

When the Spanish colonies achieved their independence in the opening years of the nineteenth century, and later when Brazil became an independent monarchy, trade was liberalized, especially as regarded shipping; but it was inevitable that there should be some inheritance of the Spanish and the Portuguese policies. The tax on exports was one of these inheritances. Benjamin Franklin held that it was defiance of all sound principles of economy for a nation to tax exports going from its own shores, but the experience of the Southern countries has not confirmed his contention. The policy has not lessened the market abroad for their products. It is simply an element in economic South America considered apart from the productive element. It does not lessen the value of the Southern Continent as a world market.

Nature has not endowed the Southern Continent with the variety and propinquity of products which would enable it to become an extensive manufacturing region. The bulk of its resources are agricultural and mineral wealth very unevenly distributed. The tropical agricultural products, particularly coffee, cacao, fruits, and rubber, furnish other parts of the world with raw materials for the consumption of human beings and of industries. The cereals and beef, the wool and mutton, produced in the temperate regions are a certain, though limited, source of supply of food and clothing. The nitrates of soda, despite scientific advance in extracting this rich fertilizing element from the air by artificial means, will continue to nourish the world's farming. Silver and gold will serve for use in the arts and in adding to the specie needed for commerce, but none of these products in itself provides the basis for manufactures.

Where iron ore deposits exist in huge quantities, as in Brazil, coal is lacking, so that the basic iron and steel industries are not practicable. The copper and tin of the Andes regions are valuable, if not indispensable, for the industries of other continents, but they are not so situated as to develop the industries of the Southern Continent. The combination of resources which provide both tropical and temperate foodstuffs for distant populations and raw materials for industry is what assures South America vast purchasing power.

The lack of other raw materials of industry, and the geographical obstacles to assembling such as exist, require that the major part of this purchasing power shall be expended overseas.

South America, therefore, is to be considered as an economic block which responds in some measure, although with limitations, to the doctrine of the classical political economists that nations possessing abundant raw materials should be content with the exchange of their products for manufactured commodities. This is the situation which causes the Southern Continent to be treated as a unit in its relation to world trade, notwithstanding that the various republics acting in their own spheres have adopted national fiscal systems that look to the development of their domestic industries.

The population of the South American countries does not exceed fifty million inhabitants, and much of this is an aboriginal population, with small capacity for consumption. Yet the purchasing power, as is shown by an examination of the foreign trade of the leading countries, is very high per person. In the totality it is treble that of the Chinese Empire, with upward of 350,000,000 inhabitants. Moreover, there is the certainty of increase in the number of consumers through immigration. This increase will come much more slowly than the rhetorical bombast of Pan-American orators would indicate. Nevertheless, there are vast regions capable of colonization, and it is inevitable that these regions gradually be filled by a producing and consuming population. The total growth in a decade, or even in a generation, through immigration may not be marked, yet the movement is a steady one. This is why commercial nations, in turning to South America as a market, look beyond the immediate prospect.

In order fully to understand South America as an economic block, it is necessary to pass in rapid review the natural resources of the different regions and the fiscal policies of the several countries. Physical and political geography come before commercial geography. In a broad way, as relates to commerce, the continent may be divided into three regions. These are the east coast, extending from the Amazon to the Strait of Magellan; the west coast, stretching from Panama to the straits; and the Caribbean Coast, extending from Panama to the Guianas.

The east-coast group is by far the most important considered with reference to area, population, and to variety and extent of natural resources. It includes Brazil, Uruguay, the Argentine Republic, and the interior country of Paraguay, which has fluvial and rail transportation to seaboard.

The vastness of Brazil is a fascinating theme, but in describing the territorial extent, it is enough to say that it comprises a larger area than is comprised in the continental area of the United States. The two principal sources of export wealth are rubber and coffee. The natural rubber of the Amazon is unsurpassed. The Brazilian product constitutes one-fourth of the world's total supply. The wide fluctuations in price make it impracticable to give a definite estimate of the real value of rubber to Brazil. In 1906 crude rubber brought $3.00 a pound; in 1911 sixty-six cents a pound. It is recognized that in the future the Brazilian product must compete with the cultivated rubber of the Malay Straits, which can be produced at a price much lower than the rubber of the Amazon can be gathered and marketed. Yet the Amazon rubber has certain qualities that make it distinct from the plantation rubber. There is no reason to assume that as a national asset it is seriously threatened with extinction by the competition of the cultivated product of the Straits, though the percentage of comparative production may continue to fall, and progressive reduction in the export tax may become imperative.

The Brazilian berry is the world-dominating factor in coffee production. A study of the statistics shows how true this is. Almost any year that may be taken will show the Brazilian crop to range at from seventy per cent. upward of the world crop. The capacity of Brazilian territory for coffee-growing is almost limitless. The practical question always has been and always will be how to avoid over-production, so as to assure profitable prices. There can be no doubt as to Brazil's primacy in the coffee market of the world, and the purchasing power which it gives her.

Cocao, or the chocolate bean, is another source of tropical agricultural wealth to Brazil. It is comparatively small when placed beside coffee, yet it is a comfortable asset. The world's production of cacao never gets much beyond the demand, and the fluctuations in price are not wide.

Sugar and cotton are produced in considerable quantities, but both these products are utilized chiefly for home consumption, and are the basis of domestic industries. The development of the live-stock industry in the temperate regions of the South promises a definite addition to the quantity of hides available for export. It also may mean meat products for oversea as well as for home consumption.

Brazil's principal mineral resources, aside from some gold and the diamond deposits, are iron ore and manganese. The hematite deposits in the State of Minas Geraes are conjectured to contain 12,000,000,000 tons. The beds lie from four hundred to five hundred miles back from the coast. Technical experts who have studied them have no doubt of their commercial value. They are one of the great ore reserves of the world, but they lack means of exploitation as the foundation of a national iron and steel industry because of the want of coal. A few widely scattered carbon deposits, suitable for local domestic and industrial purposes, have been tested, but there is no coal available in quantities which could be assembled for blast-furnaces.

The Brazilian Government has studied various plans for bringing the iron ore to the coast and transporting coal overseas, so as to insure the utilization of the ore in domestic industries; but the project hardly can be said to give promise of developing a national iron and steel industry in the near future. In consequence, the manganese ores, which are extensive and easily transported to seaboard, will continue to be shipped abroad, and add to Brazil's buying power.

The natural resources having been studied, the fiscal and economic policy of Brazil can be comprehended after an understanding is reached of the political system. The several States are held together almost as loosely as were the North American colonies under the Confederation after the Revolution. There is a centralized government, and in some respects the federation is a strong one in whatever concerns the national life; but at the same time the different States revolve in economic and fiscal spheres of their own. The central Government collects the customs taxes and has various sources of internal revenue.

Export taxes are the fruitful sources of income, and these are laid by the States, except on the rubber which is exported from the territory of Acre. Coffee, which is the great national asset, yields nothing to the central Government. The export tax is collected and applied to their own uses by the coffee-producing States of San Paulo and Rio de Janeiro. An export tax on cacao is levied by Bahia, where the bulk of it is produced. Other States impose export taxes on their products. Some of these levies are so extreme as to defeat their own purpose. An American scientist once noted that rosewood and mahogany logs were used for firewood on the locomotives of the northern railways because the export duty was so high that it was not profitable to ship them abroad.

The States encourage local industries by bounties and subsidies in various forms, but the encouragement of domestic industries in their entirety is recognized as the function of the Federal Government. Brazil has a national policy in this respect, and it is the policy of high protection. The methodical German tariff-makers, who had occasion to study the Brazilian schedules in relation to their conventional tariff, declared that analysis showed the Brazilian scale of duties to be the highest of any country in the world. Many of the duties are so absurdly high as to defeat their own purpose, but some of them, such as the impost on cotton and woolen goods, unquestionably have stimulated the native industries.

The Brazilian tariff in practice is subjected to considerable modification through the wide latitude allowed in its administration, and through the authority given the executive in the annual budget law of the Congress to make further modifications. Nevertheless, in the fiscal sense, Brazil must be viewed in its relation to world trade as a protective tariff country which also lays heavy export taxes on virtually all the natural products that are shipped abroad. Consumption taxes are levied on tobacco, beverages, salt, boots and shoes and other articles.

The Argentine Republic, with an area of 1,250,000 square miles, is to be considered internationally as one of the world's grainfields and live-stock pastures. Wheat is the permanent source of purchasing power, supplemented by maize, linseed, and other crops, and by beef, mutton, and wool. Drouth and locusts in some years limit the income derived from the grain crops, but an average may be struck for a given period with some degree of certainty.

The beef and mutton supply was one of the sources of Argentina's very rapid development as a commercial nation. It was for a while the principal factor in the dazzling growth of the foreign commerce. In the last year of the last century 9,000 tons of frozen beef, valued at less than $1,000,000, were exported. Ten years later there were 181,000 tons, valued at $18,000,000. Other live-stock products showed proportional increases.

The wool clip has been a continuously advancing source of national wealth. Notwithstanding the continued extension of grain-growing and some advance in mixed farming, which encroach on the sheep-pasture areas, there is no reason to expect that for years to come the wool crop will be a diminishing factor in the national wealth.

It is these agricultural exports which give the Argentine Republic so large a purchasing power per capita — in some years as much as fifty dollars — and which enable her, in the international turnover, to have so large a balance to meet the payment on government loans incurred for public improvements, and to remit the dividends on railways and other securities in which foreign capital has been invested.

While Argentina has vast agricultural wealth, nature has been niggardly in her gift of the mineral resources that are necessary to the development of national industries. There is no iron ore within the extensive limits of the country. No coal has yet been discovered except some isolated deposits along the Andean wall. Copper deposits in the foot-hills of the Andes and in the extension of the Atacama mineral region of Chile have little economic significance. Petroleum deposits, discovered within recent years in Patagonia, are of undoubted value as sources of fuel supply. The production has reached a million barrels annually. The government measures to conserve and exploit them assure that they will not be wasted, but at the most all that they can be counted on to do is to serve as a means of reducing the annual fuel bill previously paid out for imported coal. The commercial possibilities of the Salta-Jujuy district in the north and of the Mendoza-Nequen field along the eastern slope of the Andes have not yet been proved.

It will be seen from this brief survey that Argentina is near to meeting the ideal conditions imagined by the political economists of the classical school, that of shipping natural products abroad and taking manufactured commodities in exchange without seeking to develop domestic industries. Yet, where the opportunity offers, the protective policy is followed. The sugar-growing industry in the warm region of the North has been fostered by protective duties. Agitation for encouraging leather and woolen manufactures also has received support. Knit goods has become a promising industry.

In her fiscal system as a whole, however, the Argentine Republic recognizes the economic situation created by the nature of her resources. The mass of the revenues collected are from customs duties on articles of widespread consumption. Export duties were imposed for a period after the financial crisis of 1890 and then abandoned. The Congress of 1917 authorized the executive to reimpose them on quebracho, or tanning extract, frozen meats, cattle, wool, hides, linseed, and some other commodities, and this was done.

Uruguay's chief source of national wealth in relation to purchasing power abroad is in live-stock products. The cereals are not grown in excess of the domestic needs. Hides and wool, mutton, beef, and beef extract are the principal exports. Economically, they may be said to supplement the similar exports of Argentina. Uruguay has a distinctive national policy, which looks mainly to the stimulating of the agricultural industries. The greater part of the revenues is collected from import duties.

Paraguay, a thousand miles up the Plate, in the sense of world commerce is chiefly to be considered with reference to live-stock. Hides are the principal commodity exported. They are also the principal source of revenue, since an export duty is levied on them. Paraguay has great possibilities for the live-stock industry and is one of the South American reserves for future population to be obtained through colonization rather than by natural increase.

The west-coast group of countries, in the sense of mineral production, are the treasure bed of the Andes, but account also must be had of their agricultural wealth. Chile, in foreign commerce, takes the lead, due partly to her possession of the nitrate of soda or saltpeter beds. These whitish-yellow desert areas, themselves incapable of nourishing a blade of grass, when their surface is broken and the lower strata treated by a simple evaporating process, furnish exports, in quantity approximating 3,000,000 tons annually.

It was the belief of scientists until recently that Chile's great source of natural riches gradually was drawing to a close through the exhaustion of the nitrate-beds, but fresh discoveries demonstrated that new areas were available, although the quality of the saltpeter was not so high. Enough is known regarding artificial nitrates to show that, while they may be manufactured successfully for explosives, the process is a costly one, and this is one reason why they are not likely to take the place of natural nitrates in fertilizing the world's agriculture. Governments do not have to count the cost of artificial nitrates in war-times, but individuals must include it in their reckoning of production under peace conditions. It is a reasonable conclusion that Chile's nitrates are a permanent source of income to her.

Chile has copper in fabulous quantities, and she has enormous beds of low-grade iron ore. The country also has coal, but it is mostly lignite, and there is not enough of it to meet the needs for domestic and local industrial purposes, while its assemblage with iron ore and limestone for industrial purposes has not proved strikingly successful. Hence it has followed that the ore-beds, under control and operation by American capitalists, are utilized for steel industries in the United States rather than for a Chilean iron and steel industry. They are more valuable at Bethlehem than in Chile.

The central valley of Chile provides some surplus agricultural products for export, but the bleak Patagonian mainland and the desolate islands of the Strait of Magellan in the sheep pasturage they afford are of more importance as sources of export, since they contribute to the world's wool supply.

Chile's economic policy is strongly protective where anything to protect can be found. Textile industries instituted during the war are an example. The income from customs duties is not inconsiderable, but the larger portion of the revenues is derived from the export tax on the nitrates. Chile has resisted the temptation to lay an export duty on copper, possibly realizing that since her copper is not, like nitrates, a natural monopoly and must compete with the copper of the world, no burden should be placed on its production.

Peru has an unusual share of mineral wealth, due to the wide extent of the Andes that lies within her borders. Aside from the precious metals, her principal mineral product is copper. There are extensive deposits of bituminous coal, and in the Cerro de Pasco region these are of some local utility; but the mass of the coal deposits are unavailable through the lack of transportation facilities. These facilities in time will be provided. The expense is too great for immediate realization. The mining companies have utilized the water power of the Andes, and hydro-electric works on a large scale have been constructed for smelting the copper. Peru has petroleum deposits in the North, the output of which is used on the railways, and is exported to the amount of 2,500,000 barrels and upward annually. It is an appreciable factor in purchasing power. Peru also is to be considered in connection with valuable agricultural products, since alpaca wool, sugar, and the fine cotton of the North are exported in large quantities, while considerable rubber goes out through the Amazon.

Peru's economic policy is one of protection where there is the possibility of developing a native industry, as in the case of cotton-mills. High import duties are levied on cotton goods, and the domestic industry is a flourishing one.

In the fiscal system both import and export taxes are levied. The export taxes include mineral products, rubber, wool, sugar, cotton, and other agricultural commodities. For many years rubber was the chief source of the export duties, but the list was widely extended during the war period. This radical change in the national policy was effected by a law of March 20, 1918. Its distinguishing feature was a combination of specific and ad valorem duties. With a few exceptions no export duty is imposed until the market quotations of the various articles reach the level specified in the law itself. Beginning at that point, the specific rates provided for are applied with an addition of ten per cent. of the excess of the actual market quotations above the minimum prices fixed in the law. The abnormal prices of most of the products included in the law foreshadowed its success while the war lasted. Whether the mineral and agricultural products, none of which is a natural monopoly, can pay these duties and compete with similar products of other countries under peace conditions must be determined after trial. Theoretically, the provision under which the export duty is not imposed until the market quotations reach the level specified in the law itself would meet this situation, but in that event there would be no revenues.

Bolivia, notwithstanding the lack of a seacoast, may be described as a west-coast country, although part of the rubber product of the vast river region finds its way out through the Amazon to the Atlantic. While some copper is produced, Bolivia is to be considered chiefly in connection with the production of tin. The country is next to the Malay Straits in this product. Bolivia depends both on import duties and export taxes for her national revenue. Tin, as the leading product, is the most dependable source, although the export tax on rubber affords some income.

Ecuador has one preponderating source of national wealth. This is the cacao, or chocolate bean. The country produces 75,000,000 pounds and upward of this commodity yearly. Other agricultural resources include coffee, rubber, ivory nuts, or vegetable ivory, straw for Panama hats, and hides. There are few mineral products. Ecuador derives the larger part of the national income from the export tax on cacao, but wherever a customs duty can be imposed in order to develop a local industry, this is done.

The Caribbean group might be called the north-coast group, although it includes Colombia, which has a long frontage on the Pacific coast, as well as on the Atlantic. The principal products are coffee, cacao, and fruits, rubber from the interior districts, gold and silver, various hardwoods and dyes, and medicinal plants.

The Caribbean countries, Colombia, Venezuela, and the Guianas, have substantially similar products. Colombia depends principally on the export of coffee and bananas, and on the gold and silver mining output for her purchasing power abroad. The platinum deposits have not been productive enough as yet to be considered an important source of natural wealth. There are enormous resources not yet exploited. One of these is oil. Its exploitation will be gradual, but the value of the deposits seems to be determined. Colombia imposes an export tax on coffee and other products.

Venezuela's principal products for exports are cacao, coffee, and hides. The country has iron ore deposits and also coal, and has therefore definite manufacturing possibilities; but these are not fully enough tested to enter into present consideration. The Caribbean and the Orinoco oil-regions give promise of commercial development. Petroleum is one of the assets of the present day. The fiscal system includes both export and import taxes.

Economically, the Guianas are to be viewed as producers of sugar and a few other tropical articles, including rubber, along with some gold. Politically, and commercially, their overseas relation has to be recognized, especially that of Dutch Guiana and French Guiana. British Guiana has to be taken in connection with British imperial trade policy, and geographically as including the Island of Demerara, which is the seat of the sugar industry.

This survey of South America as an economic block has shown only in outline the relation of tropical and temperate agriculture. The generalization may be made that, while both are susceptible of development, the products of tropical agriculture are likely to be the leading source of exports, and therefore the principal element of purchasing power. Similarly, the exports of copper and nitrates are the chief factors of an industrial character, with iron ore a growing factor.

The imposition of export duties works satisfactorily to all the countries. The development of domestic industries under protective duties may be accepted as a continuous policy, but one which will not change the volume of purchases abroad, because of the demand which will be created for machinery and installation. Generally, therefore, South America may be considered as a great productive region of certain raw materials for export, and as a consumer principally of manufactured products. In this light it is to be viewed as a market.

CHAPTER XIV

SOUTH AMERICA AS A MARKET FOR EUROPE

Salient geographical aspects — Interchange among the several countries — Ocean routes to the Old World — Panama Canal — Racial ties with Europe — Immigration from the Mediterranean countries — French intellectual influence a trade factor — Spain and Italy — Reasons for England's primacy — A century's normal growth — British investments — Germany's methods — Teutonic colony in Brazil unimportant — Market in other countries not lost — Tragedy of Belgium's commerce — Europe's prospects.

South America as a market is to be viewed in three salient geographical aspects. These are the commercial intercourse of the several countries among themselves, the trade relations with Europe, and the trade relations with the United States. There is some trans-Pacific commerce, chiefly with Australia and Japan, and there is also trade with India. This trans-Pacific traffic is a growing commerce, but it is relatively a small factor in South America as a market.

The commerce of the several republics among themselves is partly that of frontier traffic and partly that which requires sea-borne transport. Since the tropical regions grow similar products, there is little interchange of these commodities among them. The same observation applies to the production of minerals. Since few of the countries have the raw materials for extensive manufacturing, there is little internal commerce in manufactured commodities except in textiles.

The frontier trade is principally the seasonal interchange of live-stock and agricultural products. In illustration, there is a considerable movement of cattle, horses, goats, and sheep between Argentina and Chile.

The larger commerce is principally that of foodstuffs between the tropical and the temperate regions. The Argentine Republic draws her coffee from Brazil. In return she sends a part of her wheat to the Brazilian flour-mills. Peru supplies sugar-cane to Chile, and when the Australian crop is short and the Chilean crop abundant, imports wheat from Chile for her flour-mills. Peru also ships her cotton fabrics across the frontiers to Bolivia and Chile. Brazil sends coffee through the Straits of Magellan to Chile, while Ecuador routes both cacao and coffee down the coast to Chile. The latter in return supplies these countries with some miscellaneous products and minor manufactures.

The question of a South American *Zollverein* is sometimes agitated. It is viewed in the larger aspect of continental commerce. Necessarily there is a political background to it. The project is not impracticable, but it is not one that is likely to have early realization. A more probable development is free trade in articles of native origin among countries grouped geographically together. This relation has been recognized in a number of treaties which have been negotiated, but have not become effective. It has existed between Peru and Bolivia and it has been sought between Chile and Bolivia. Should arrangements of this kind be consummated between any group of countries, it would be beneficial to the parties to it, but it would not impair their value as a market for the products of overseas countries.[1]

[1] For an instructive survey of the nature of South American trade with all countries, see "South America as an Export Field," by Otto

Geographical obstacles prevent extensive interchange of products between the east-coast and the Caribbean and west-coast regions. The Venezuelan ports are farther away from Buenos Aires than they are from New York. Guayaquil, the leading port of the west coast between Panama and Valparaiso, is more accessible to the markets of Europe and the United States than to those of Uruguay and Brazil. So is Callao, the gateway to Peruvian commerce.

Relations with Europe, in so far as they affect trade, are to be considered from a twofold point of view. One is geographical; the other is racial.

Respecting the geographical relation, the steamship lanes from Genoa, Marseilles, Barcelona, Lisbon, Bordeaux, Havre, Liverpool, Southhampton, Plymouth; Hamburg, and Bremen to Rio de Janeiro, Santos, Buenos Aires, and other ports of the east coast are but little longer than those from New York, Boston, and Philadelphia. For example, from New York to Pernambuco, the first Brazilian port of call, is 3,700 miles. From Liverpool it is 4,062 miles. This means less than 400 miles difference to the east-coast ports, a negligible factor in ocean traffic.

Though the Panama Canal is an extension of the Atlantic Coast line of the United States down the west coast of South America, it shortens the distance between European ports and Guayaquil, Callao, and Valparaiso in the same proportion. The opening of the canal, while it has benefited New York and Norfolk and New Orleans, also has enabled the European steamship lines to avoid the long voyage through the Straits of Magellan or

Wilson, Special Agent of the Department of Commerce, Washington, 1914. Republished in 1918.

around Cape Horn. Except for its propinquity to the Caribbean coast ports, the United States relatively has no marked advantage over Europe in transportation routes.

Racial ties, the inheritance of language, laws, customs, and traditions, the bond of intellectual sympathy — all these must have attention when the respective relations of Europe and the United States to South America are considered. Latin America is a loose and misleading term, yet in describing South America it reflects the knowledge that the Southern Continent as a whole, and the countries separately, were colonized from the southwestern corner of Europe, and especially from the Iberian peninsula. It also reflects the fact that the currents of modern immigration, although some of the streams have mid-European sources, are from the Mediterranean countries, Italy in particular.

The native stock of all the countries of South America except Brazil is of Spanish origin. Brazil is Portuguese, with a large African intermixture. Though the peoples of Spain and Portugal are widely dissimilar, there is some identity in so far as relates to their Latin characteristics. Spanish immigration into South America has been continuous. Italian immigration is the development of the last half-century. It has mounted higher and higher. One third of the permanent population of San Paulo in Brazil is of Italian origin, and the other southern States of Brazil show increasing Italian elements. Such immigration as Uruguay profited by has been chiefly from Spain. The streams from Spain to the Argentine Republic have flowed steadily but they have been small compared with the Italian tide.

The Argentine Republic has 8,000,000 inhabitants, and of this number 3,000,000 are of Italian birth or descent. One fourth the population of Buenos Aires, the greatest city in the south temperate zone of the world, is Italian. Argentina has an immigration policy based not only on the Mediterranean countries, but on the countries farther to the north as well.

Patagonia, no longer a forbidding wilderness, but an habitable agricultural area capable of growing wheat and of mixed farming, as well as of raising sheep and pasturing cattle, affords homes for millions who are habituated to the temperate regions, while central and northern Argentina are also capable of sustaining the northern races without danger of a tropical sapping of the energies. The Government has encouraged colonies of Welshmen, of Swiss, of Russian Poles, of Boers, and of the Slavs of central Europe. These colonies are taking root, and in the course of another half-century may affect the character of the Argentine people. But with the past perceptibly Spanish colonization, and with the existing preponderant Italian immigration, the national type at present is distinctly Latin.

With this historic inheritance, and with the tongues of Spain and Italy and Portugal so largely predominant, it may be understood how strongly the Latin habits of thought prevail in South America. It may also be comprehended why from time to time there are intellectual movements for a revival of Hispano-Americanism. The broader Latin intellectual force, however, is that of France.

There are comparatively few Frenchmen in South America, but the influence of France is more pronounced than that of Spain herself. In Brazil, where, notwithstanding the language, there is no vital Portuguese intellectual impress on the national character, French intellectualism is very pronounced. French thought has largely influenced the literature of Brazil, and has had a very direct influence on her political institutions. The teachings of August Compte, the apostle of positivism, were one of the most potent factors in overthrowing the monarchy and setting up the republic, although little effort was made to establish it on positivist lines.

It may consequently be understood that since the newspapers are published in Spanish, Italian, and Portuguese, and since all the educated classes are familiar with French, international subjects are viewed through European glasses. This has a reflex influence on commerce. Sometimes it has been employed to attempt movements for a Latin league in South America to combat a specter called "Yankee Imperialism." Occasionally, it has been made the basis of practical suggestions for increasing the trade of the Latin countries of Europe with the South-American republics. It is an enduring element that must be reckoned with in future trade relations.

In view of the racial and intellectual ties, the observer who examines the situation from the practical point of view may ask why it is that Spain and Portugal and Italy, and even France, have proportionately so little trade as compared with the non-Latin nations of Europe, which means England and Germany. The answer is that both Spain and Italy have a good trade, based to some extent on racial sympathy, but neither of these countries has the domestic basis for a large overseas commerce. They lack the raw materials to enable them to become manufacturing countries on a large scale, and

South America as a market is principally a market for manufactured articles, including machinery. Neither has Spain nor Italy surplus capital for large investments abroad which develop business, although they have some capital in South-American banks and other enterprises.

France has heavy investments in Brazilian railways and also in the railways of northern Argentina and in banks. She gets a return in supplying material through these investments as well as in dividend remittances. That her trade with South America is reasonably large is partly due to a social condition. No middle class has yet developed in any South American country, though in several of them there is the germ of such a class. Consequently, the consumers to be supplied are a large mass of very poor people who have limited purchasing power, or a small group of very rich people who have very large purchasing power, and who buy freely of luxuries. All the refinements of the arts of civilization are theirs, and France supplies these refinements, transmitted into commercial commodities.

The primacy in South American trade is held by Great Britain for very sound reasons. Through the foresight of Canning, for three quarters of a century she had no competitor. Canning was the foremost trade diplomatist of the early period of the nineteenth century. He encouraged the American Minister, Richard Rush, to believe that England would coöperate with the United States against the efforts of the Holy Alliance to restore Spanish monarchical power, because he foresaw that if the revolting colonies were again put under Spanish authority, Spain's trade monopoly would continue. A Canning myth regarding the Monroe Doctrine has been evolved by some superficial historians who have imagined that the British premier was concerned only with a love for political liberty. It is unnecessary to dissipate the myth here. Before their independence was complete, the colonists had to defeat a British army at the River Plate.[1] Canning wanted the commerce of the colonies for Great Britain, and he got it by the entirely legitimate means of encouraging their political independence, with the free market which was the sequence of that independence.

British merchants at once established themselves throughout South America, and the currents of commerce flowed to and from the United Kingdom. This trade was helped by means of the shipping facilities which from the beginning England maintained and which she enlarged and strengthened from time to time. But an even more potent promoter of British trade was her investments. A large share of the superabundant British capital seeking profitable fields for employment naturally overflowed into South America until, at the outbreak of the Great War, England had not far from $4,000,000,000 invested there.[2] These British investments in South America are the fructifying source of British trade; they are also the explanation why the United Kingdom is not adversely affected by the racial and intellectual rapprochement of the South American countries with the Latin nations of Europe.

England clung tenaciously to her South American business during the first years of the Great War, but

1 See "The Monroe Doctrine and the Canning Myth," by Charles H. Sherrill, American Academy of Political and Social Science, April, 1914.

2 See "Banking Opportunities in South America," Report of W. H. Langh, Special Agent of the Department of Commerce, 1915. See also Report of Special Agent Frederick M. Halsey on Investments in Latin America.

as the struggle became more vital and her policy of maintaining exports had to yield to more pressing considerations, she lost considerable of this trade. Coal shipments had to be reduced because of the demands of her own industries and of the industries of her allies. Machinery and railway supplies also suffered. Even her market in cottons was heavily curtailed. But the falling off was viewed as purely temporary, and none of the long-established connections was lost. When the United States became fully enlisted in the war, and the outcome no longer was in doubt, a British commercial commission was despatched to the South-American countries. This was in the midsummer of 1918. It was the official notification that England was again out for South American trade.

Within a fortnight after the armistice had been signed the British consulates throughout South America issued notices of the facilities which would be afforded merchants who wanted to go abroad to stock their empty shelves. Ships were also immediately available on which they could travel, and which could be depended on to bring back the goods they bought. These measures helped England to regain some of her lost trade and also to enlarge her portion of Germany's commerce. They made it sure that she would continue to have her full share in South America as a market measured by past conditions. But it is not so certain that in the building of port works and public works of all kinds and in railways British capital in the future will be able to do in South America what it did in the past. That means that British trade will not grow proportionately with the growth of the South American market. But it will not diminish.

Germany's South American trade was one of the striking chapters of her economic penetration into the whole world and of her commercial expansion under the evolution of the Prussian state. In the earlier years of this period, during the transformation from an agricultural kingdom or group of kingdoms into a grasping industrial empire, the South-American field was cultivated cautiously, yet persistently and systematically. Germany, without much surplus capital, and with none of the spirit of adventure which, in order to get large returns, undertakes vast mining developments and great railway enterprises, made investments of a conservative character. In hydro-electric development, however, she led all other countries. But principally her capital went into the nitrate fields, public utilities, banks, and commercial partnerships.

Hamburg, with a thousand export firms doing business throughout the world, gave special attention to South America. Hamburg houses became partners in virtually every large importing firm with German connections. Germany also reaped some of the rich rewards of the carrying trade from the capital she put into shipping lines. Handling the coffee crop of Brazil was partly a German enterprise. Out of all these multiform activities it resulted that while the German investments in South America relatively were small as compared with England, the commerce built up in a third of a century was not so greatly inferior to that which England had taken a century to develop.

Whenever the peace imposed by the Allies on Germany permits her to have an export trade, her manufacturers will again look southward across the seas, even though they may be allowed a merchant marine too small to be of much account as a national asset. Yet it does not follow that South America ceases to be a market for Germany or for German products. It is certain to be a continuous field for German commercial activity. This is not the common impression, but the common impression frequently is formed on national feeling or personal desires rather than on knowledge.

Germans settled in South America are to be considered in reviewing that continent as a market for German goods. The least important element among them is the nost numerous one. This is the German colony in southern Brazil. That colony, while in the third generation and with no refreshening stream of Teutonic immigration, nevertheless was a real peril for Brazil. Its members preserved their racial identity, their language, their religion, their schools, and their customs. The schools and the churches were ruled from Berlin, because the subsidy came from there. After entering the war against Germany, Brazil took energetic measures to meet this peril from within and rigorously suppressed everything of a German character. Brazilian nationality in the future will dominate the States of Santa Catharina and Rio Grande do Sul, which were the seats of the German colonies.

But the Colony was not a German commercial asset. Its numbers never exceeded 400,000, notwithstanding the frequent statements about the million Germans in southern Brazil. A million sounded large, and it had come into use long before the war. The Brazilian Government itself never gave encouragement to these figures.

The truth about the German settlement was that as consumers of foreign goods the inhabitants were almost a cipher. They were very largely a rural population, a people who had retrograded, and who were able to produce among themselves substantially all the articles they consumed. They were in truth a primitive community with few needs which they cared to supply from without.

Germany's real commerce was in providing goods for Brazilians themselves through the ports of Rio de Janeiro and Santos. Interest in the coffee crop gave the Hamburg firms a very valuable means of supplying return cargoes, and these cargoes consisted of a great variety of manufactured commodities. The hatred growing out of the war among Brazilians of Germany and all things German, and the elimination of Hamburg from the coffee trade, assuredly will subtract Brazil from the markets of Germany in South America, but this is not so in all the other countries.

The Argentine Republic remained officially neutral during the war, notwithstanding the popular sentiment in favor of the Allies. The German commercial colony at Buenos Aires was most powerful. This commercial colony still exists. It may not draw directly on Berlin, and it may have little to remit to Bremen and Hamburg but it occupies a very distinctive place in the commerce of Argentina. German goods may be obtained indirectly from so-called neutral European countries, or the goods of other countries may be procured for distribution, yet they will be handled by German firms in Argentina, and in one sense will be a part of German trade in South America. Emigration from Germany to Argentina set in soon after the armistice was signed and this means German trade.

Chile has a distinctive German population in the southern part. Unlike Brazil, Chile never allowed the language of the country to be ignored or its institutions to be forgotten. The so-called German colonies in Chile are bilingual, speaking both Spanish and German indifferently. As a consequence of the war they may become absorbed more fully into Chilean national life, but the German identity will not disappear for a long time. This means that there will be a preference for having German wants supplied through German sources.

Chile, it is to be remembered, also remained neutral during the war. German capital investments and German business interests suffered in some degree as a result, but there is no general feeling of hostility on the part of the people, and no governmental policy of rooting out German influence as on the part of Brazil.

The examination, if extended into other countries, would give the same results. With German groups still powerful in trade and finance in all the leading countries of South America, it is too much to say that Germany is eliminated from the South American markets, no matter what the trade statistics in the years immediately following the war may seem to show.

The tragedy of commerce in South America is the story of Belgium. The heroic country there, as at home, was stripped of her all. Before the war the South American market was a valuable one to her. She supplied capital for Brazilian railways, and furnished the material for building them. She entered the market of Argentina with her special products, and developed a considerable trade there. She introduced her engines and railway equipment into Chile, and found a profitable market in that country. She supplied other countries with her fine fabrics. In the year before she became the victim of Germany's ferocity the exports from

Belgium to all South America were a definite source of her domestic prosperity.

Rehabilitated Belgium some day may have this trade back, but the process of rehabilitation is a slow one, and in the meantime the commerce she once had goes to her allies and protectors. It forms part of the general volume of European commerce in South America, and as an international factor may be credited to Europe proper. But a passing word of regret may be dropped that the South-American market cannot wait for Belgium's rehabilitation in order that she may have her proper proportion. The same thing may be said of France, but in a lesser degree, for France managed to maintain part of her South American trade in the most depressing periods of the war.

Reviewing the field generally, it may be said that while the new era in the South American markets for Europe is one of readjustment, it is not one of new trade. Racial ties and geographical situation, with the facilities for intercourse thus existing, will continue to be favorable factors for Europe. But the governing factor of the future in the South-American market is the United States.

CHAPTER XV

SOUTH AMERICA AS A MARKET FOR THE UNITED STATES

Aspirations from Clay to Blaine — Trade not hampered by tariff policy of the United States — Brazilian preference — Analysis of general commerce — Nature of increase during the war — Shift from Europe — Permanent and temporary gains — Character of after-the-war commerce — Causes of adverse and favorable balances — Basis of future growth — New business — Loans and investments — Development enterprises — What a billion dollars invested in South America will mean.

CLOSER relations between the United States and the South American countries have been the aspiration rather than the achievement of American statesmen since the time of Henry Clay. But until James G. Blaine projected his penetrating imagination into the future of the Western Hemisphere, it cannot be said that there had been a definite South-American trade policy on the part of the United States. The people were ignorant of the industrial opportunities and indifferent to the commerce. They did not need the markets, and there was too profitable employment for capital at home to incite them to look southward.

Mr. Blaine was so far ahead of his time that after the lapse of a third of a century Pan-American Conferences have met without the mention of his name by orators who themselves have just discovered South America and manifest the enthusiasm of original discoverers. An eminent successor in the office of secretary of state, Elihu Root, returning from the visit in which his own vision of their future left a momentous influence on the peoples and the governments of the South American continent, said in an address before the Trans-Mississippi Commercial Congress at Kansas City in 1906:

> Twenty-five years ago, Mr. Blaine, sanguine, resourceful, and gifted with that imagination which enlarges the historian's understanding of the past into the statesman's comprehension of the future, undertook to inaugurate a new era of American relations which should supplement political sympathy with personal acquaintance by the intercourse of expanding trade and by mutual helpfulness. . . . The policy which Blaine inaugurated has been continued; the Congress of the United States has approved it, subsequent presidents have followed it. Nevertheless, Mr. Blaine was in advance of his time. In 1881 and 1889 neither had the United States reached a point where it could turn its energies away from its own internal development and erect them outward towards the development of foreign enterprise and foreign trade, nor had the South American countries reached the stage of stability in government and security for prosperity necessary to their industrial development.
>
> Now, however, the time has come; both North and South America have grown up to Blaine's policy; the productions of trade, of capital, of enterprise of the United States, have before them the opportunity to follow, and they are free to follow, the pathway marked out by the far-sighted statesmanship of Blaine for the growth of America, north and south, in the peaceful prosperity of a mighty commerce.

It is the commonest of misconceptions that trade relations with the Southern Continent have been hampered by tariff policy, and that the market there has been restricted because of the restrictions which were placed on the market for its products in the United States. Politicians, in the plenitude of their ignorance, have fostered this misconception. Yet in all the eccentricities of tariff legislation neither South America as a continent nor any particular republic has been discriminated against by the United States. Since the duty was taken off coffee during President Grant's administration, the United States continuously has admitted ninety-five per cent. and upward of the products of those nations free of duty. Rubber, coffee, cacao, bananas, and other fruits, and virtually all tropical agricultural products, have been on the free list. So have been copper and other minerals and nitrates.

The Payne-Aldrich law added further to this largess to South America by free-listing hides, and the Underwood-Simmons Act supplemented this concession by free wool and the cereals. Analysis of the imports from the South American countries for recent years shows that some of them have had more than ninety-nine per cent. of their products admitted to the United States free of duty. In the case of Brazil, the fraction under one hundred per cent. was so slight as to be imperceptible. It is correct to say that the United States admitted those products free for its own purposes, and not as a special favor to any South American country. The same statement might be made about the tariff legislation of all countries. It does not alter the fundamental fact that the Southern republics have had the benefit of free markets in the United States.

The only instance where products of the United States have received tariff concessions in South American markets, except during the brief life of the several reciprocity conventions, is that of Brazil. What is known as Brazilian preference has been in force since 1904, except for one year during which it was intermitted. It is a voluntary discrimination on the part of Brazil in favor of certain commodities produced in the United

States. The list has been increased from time to time until it includes wheat-flour, condensed milk, rubber manufactures, paints, varnishes, ink other than writing ink, type-writers, weighing scales, refrigerators, pianos, windmills, cement, dried fruits, school furniture and desks, and corsets. A uniform reduction of twenty per cent. from the Brazilian schedule rates is granted to these commodities, with the exception of flour, which receives a preference of thirty per cent. Originally, flour received only twenty per cent. but at a period when flour from the United States was threatened with an entire loss of the Brazilian market, Secretary Knox secured an increase in the preference to thirty per cent.

This preference runs from year to year. It is authorized in the annual budget law passed by the Brazilian Congress, and is made effective by the decree of the executive. Brazil also has shown a disposition to modify, by means of administrative rulings, the duties on some products of considerable importance to the United States; but this is in no sense a discrimination, since other countries also are benefited by the rulings. The total trade affected by the preference forms only a small percentage of the imports into Brazil from the United States.

In the ten years following Mr. Root's address there was something in the nature of systematic policy to enlarge the trade of the United States in the markets of South America. Analysis of the trade in the decade before the Great War shows its nature. The South American imports from the United States consisted of mineral oils, lumber, mining machinery, farm machinery, steel rails, locomotives and other railway equipment, miscellaneous iron and steel products, electrical apparatus, office appliances, flour, lard, and bacon, and that vague, but wide-embracing, category known as general merchandise. The market for textiles was the most limited of all. There were no primary raw materials of consequence. Mineral oils, lumber, and flour might be classed as semi-manufactured articles, but the bulk of the imports were manufactured commodities. The total values amounted approximately to $150,000,000, measured by the prices on leaving the United States. Measured by the import values of the South American countries the total would be larger.

The United States was a reciprocal market principally for primary raw materials from South America. There was rubber, with the tropical food products, coffee, cacao, and bananas. The products of temperate agriculture imported were chiefly hides and wool. The mineral products included the precious metals, but principally copper and the nitrates.

In the early stage of the war, while the United States remained an aloof neutral, there was a reduced commerce both in volume and value. The leading South American republics were passing through commercial and financial crises which already had reduced their purchases from all countries. These crises were accentuated by the war uncertainties and the difficulties of transportation. Relief came when the United States began to absorb some of the products for which the European market had been either entirely closed or restricted. It increased the purchases of Brazilian coffee in a constantly ascending degree. Much larger quantities of Brazilian hides were taken, the imports being trebled in two years. Rubber was taken in augmented quantities, although there were some interruptions in this movement due to England's policy of controlling shipments. The imports of cacao were doubled.

The Argentine Republic, with the war demand full upon her, and with England and France keeping transportation open in order to assure themselves the benefit of the staple foodstuffs, had apparently little need of a new market, yet it proved to be a convenience to have some of her surplus crops absorbed. There was an abundance of maize, or corn, and the United States, notwithstanding its own huge crop, took part of the Argentine surplus. The purchases of hides advanced in quantity fivefold. A market was opened for flaxseed, which previously had not been in demand. In two years the purchases of wool advanced four-fold. The United States also absorbed a heavy proportion of Uruguay's hides and wool. Bolivian tin, in the form of concentrates, or raw material, was given a market in the United States by the enterprise of American smelting interests. These established a smelter on the coast of New Jersey. This absorbed substantially all of the Bolivian tin output during the war.

From Chile the United States more than doubled its purchases of nitrates, for which the European market had been partly closed through the shutting off of Germany and the spoliation of Belgium. The imports of copper were greatly increased. Peru was benefited by the United States doubling the purchases of copper and taking tropical agricultural products in augmented quantities. Other South American countries were benefited in the same way by the purchase of their staple crops, for which the European market had become restricted.

The reciprocal South American market was not proportionate to the absorption by the United States of South American products, but this was in some measure a war condition, and related especially to restricted transportation facilities. In some articles a foothold was obtained, while the sale of others was visibly increased. England's inability to furnish sufficient coal resulted in heavy imports of American coal by the Argentine Republic, Brazil, and Uruguay.

Iron and steel products generally and railway materials particularly were not greatly augmented, because the mills in the United States were compelled to provide for the European belligerents and for the war preparations at home. Moreover, there was little new railway building in South America. Some forms of machinery, however, were bought in reasonable quantities, and automobiles showed a steady progression. Tinplate was an exception to the rule regarding iron and steel products. The imports of it were heavy. Miscellaneous merchandise also advanced in volume as well as in value. The most significant gain was in cotton goods.

After the United States became a belligerent, the absorption of South American raw material products continued, but the purchases were made in conjunction with the Allies and the distribution in the same manner. Some of the exports to South America grew, yet in many of the commodities there was a falling off due to the further diversion of mills and factories to munition works. The lack of transportation facilities also operated as a check on the general trade movement. These statements are made without reference to statistical details concerning particular commodities. Making allowance for inflated war values, the United States was able to show an increase in percentages as well as in quantities and total values in the South American market. This was the evidence of real gain.

The shifting of the trade is shown by the following tabular exhibit of the three years before the war and three years during the war, taken from the *Bulletin of the Pan-American Union:*

SOUTH AMERICAN REPUBLICS — IMPORTS

	United Kingdom	Germany	France	United States
Three yrs. before the war:				
1911	$262,099,378	$166,057,707	$ 77,470,841	$129,701,069
1912	271,596,755	179,183,276	84,009,125	153,363,245
1913	285,555,025	188,900,663	89,520,389	167,523,500
Total ..	819,251,158	534,141,646	251,000,355	450,587,814
Three yrs. during the war:				
1915	134,893,988	....	25,935,543	157,281,670
1916	151,330,088	....	33,135,448	245,039,475
1917	135,391,498	....	29,237,751	328,104,962
Total ..	421,615,574	....	88,308,742	730,426,107
3 yrs' increase.	[1]397,635,584	....	[1]162,691,613	279,838,292
Per cent.	[1]48	....	[1]65	62

[1] Decrease.

The character of the after-war trade between the United States and South America is not likely to change, because the essential conditions are the same. South America will continue to want principally manufactured articles, and will be able to supply tropical food

SOUTH AMERICAN REPUBLICS — EXPORTS

	United Kingdom	Germany	France	United States
Three yrs. before the war:				
1911	$236,722,421	$139,392,981	$ 97,968,551	$ 194,918,560
1912	270,693,412	156,625,332	103,831,319	247,094,781
1913	281,988,119	162,026,169	104,971,303	204,287,389
Total ..	789,403,952	458,044,482	306,771,173	646,300,730
Three yrs. during the war:				
1915	297,984,630	....	95,579,973	341,183,532
1916	294,210,604	....	140,507,243	453,213,385
1917	324,497,601	....	144,944,925	592,275,562
Total ..	916,692,835	....	381,050,141	1,386,672,479
3 yrs' increase.	127,288,883	....	74,278,968	730,371,759
Per cent.	16	....	24	113

stuffs, and products from the temperate regions, such as hides and wool. She will have mineral products in steadily increasing quantities to dispose of. There are, however, some special considerations, that affect the trade relations with particular countries.

The United States, in determining the place it will occupy in the South-American markets, will be compelled to take note of what may be called an international nuisance. " Dumping " in neutral territory is one phase of world commerce. It could not be entirely controlled by international trusts if these trusts could be again formed. The field is too inviting, and the inducements for price-cutting are too strong. The elimination of Germany, with her commercial immorality and her trade policy of dumping in foreign markets, does not entirely eliminate the disturbing factor.

Since South America is so large an importer of manufactured commodities, it is to her interest to encourage the competition of many countries in her market, and dumping is one form of this competition. She will do this without fear that her consumers will be unfavorably affected by finding themselves at the mercy of a monopoly when once the market has been obtained. The defeated competitors will be too watchful and too eager to regain a foothold for any one country to retain the market for a given commodity at extortionate prices. This means that the United States must be prepared to meet the prices of its competitors.

It is the common knowledge that South America as a whole, and the majority of the respective countries, have large apparent balances of trade in their favor. This is due to their ability to supply the rest of the world with raw materials many of which are of the nature of monopolies of production. This apparent balance is partly offset by remittances for interest payments on loans held abroad and on development enterprises of foreign countries. The United States has not yet reached the point where it has an invisible balance of this character to offset the apparent balance created by the excess of exports from the South American countries over imports.

The North-American people are such pronounced consumers of coffee that this staple alone insures Brazil a balance over what normally she can purchase in the way of commodities. Each person takes about nine and a half pounds of coffee annually, and nine pounds of this quantity comes from Brazil. Consequently, so trifling a thing as the coffee-cup is an important factor in South-American trade. The policy of the United States is and should be to reduce this adverse balance as largely as possible by exporting commodities to Brazil, but it should not be held as a grievance against Brazil that an exact equilibrium cannot be established.

A somewhat similar condition obtains with regard to Chile. The growing purchases of Chilean nitrates and of copper have built up a favorable balance of trade for that progressive country. The increase of imports from the United States for industrial purposes serves to normalize the economic situation, but an equilibrium may not be obtained for many years to come. Yet Chile constantly proves to be a better customer for American products.

The Argentine Republic presents a contrast. There the normal balance is against her and in favor of the United States. A very valuable market has been built up for farm machinery of the kind in which the United States is preëminent. Argentina, having no basis for a basic iron and steel industry, will always be a heavy buyer of farm implements abroad, and the United States will be her principal source of supply. She cannot find a market in this country for products of her own in quantities sufficient normally to offset these purchases. The reason is that her staple products are agricultural, and a large market cannot exist for them in a country with the vast agricultural area of the United States. Nominally, the two countries are competitors in the world's markets, because both are producers of agricultural commodities. Actually, the competition is slight, because of the circumstances which reduce the surplus agricultural products that the United States has for export.

This is a normal relation but it is subject to exception, as a statistical citation will show. In the year 1913 the imports into Argentina from the United States amounted to $50,000,000, while the exports were $23,000,000. The following year the conditions were almost exactly reversed. The imports from the United States were $30,000,000, and the exports to it $50,000,000. There was a reason for such an astonishing reversal of trade balances. In 1914 Argentina was in the midst of a serious depression, and her purchases abroad were enormously curtailed. Agricultural machinery was one of the heaviest amounts in this curtailment.

In the same year the United States, notwithstanding its own large volume of farm crops, was short on several commodities. Corn and oats were imported from Argentina. A market also was opened for flaxseed, and Argentine meats for the first time were supplied to North American consumers. These two circumstances — that is, Argentina's decreased purchases of manufactured articles on account of her commercial depression, and the new market opened in the United States for her agricultural products — brought about not an equilibrium, but a reversal of trade balances. The succeeding years were more normal, but they cannot be taken as a permanent measure of the mutual commercial movement. The probability is that the balance of trade between the United States and Argentine always will be in favor of this country, yet the United States will find its Argentine market increasingly valuable in the degree that by purchases of Argentine agricultural products some approach is made to an equilibrium.

Recurring to the whole field of South America as a market for the United States, some conclusions may be drawn from what has been stated in the preceding pages, and some statements of a general character may be made.

When the Great War began, the United States was beginning to retrieve the laggard years in which no effort had been made to participate in the South American market in a systematic manner. Its exporters and manufacturers were becoming real competitors with Europe and were in a way to obtain a proportionate share of the trade. During the war period there was a definite gain, much of which was due to the elimination of Germany and Belgium, and some of which will be held permanently. But the real gain was of a more positive character.

Progress was made in facilitating the interchange of commodities when, under the provisions of the Federal Reserve Act, the banks of the United States established branch banks in South America. The transactions made possible by this course, while not insuring dollar exchange, were a step in that direction. There was also a tendency to adjust trade to the system of long credits, which might be called an approximation on both sides. Some advance was made in the knowledge of local trade customs and requirements, and even in the language of the countries in which the business was to be done.

These advances assure the United States a fair proportion of the future trade of South America. They assure that it will occupy a plane of equality with Europe. They offer no prospect of monopolizing the commerce to the exclusion of that continent, nor is it desirable that they should offer such a prospect. Europe must live. Foreign trade is food to her, and South America must furnish a part of the aliment.

There is a wider horizon to which the United States can look. This is in new business. Some of the broad-est-minded industrial leaders in the United States export trade refused to enter the South American field merely to take business away from those countries which were already established there. If there was no increase to be had, they did not think it worth their while. Where they could see an increase, they entered into competition for existing trade, but only as the basis for future participation. That is the prospect that now unfolds. Back of it, however, is what may be called the psychological element.

A better understanding of Hispano-American character, or, to be more correct, or Ibero-American character, is the essential. It is almost a platitude to talk about promoting a better knowledge, but the subject cannot be ignored. In dealing with South Americans extremes are to be discouraged. In the past there has been the patronizing tone based on ignorance, which was intensely irritating to plain South-American business men as well as to cultivated South Americans. This has been followed by a tendency to fulsome flattery, also based on ignorance. Usually it has been accompanied by a readiness by North Americans to defame their own country and to attribute to it motives and policies which never existed.

In their diplomatic controversies with the United States, the South-American countries often have been in the wrong. Their public men and their intellectual classes know it, and nothing is gained by pandering to the prejudices of those who do not know or do not care to know. It is always well, therefore, for the North American to maintain his self-respect and not to defame his home country as a means of gaining favor. With this reservation, the work of building up trade in South America by first establishing a sympathetic understanding of the South-American people may go forward on the right lines. That is the psychology of the South-American markets.

There is another psychological factor which is even more vital. This is what may be called the visibility of the United States. Its presence in South America in the form of capital is what is needed. Branch banks are helps, but they do not create capital; they only fix the channels in which it flows. The prime need, therefore, in order to assure a large volume of new business in South America, is for the United States to export some of its capital as well as its products. Europe will not be able further to finance the South American republics, although England and France both hold tenaciously to the securities they already possess. When these were pledged as collateral for war loans in the United States, it was with the definite intention of not parting with the collateral, because of its value as a trade asset. But the new loans which will be required for government work such as harbors, port works, irrigation, and railways, cannot be supplied by England or France. The war burden of those nations is too heavy.

These loans must be provided by the United States. In providing them, it provides itself with a very definite market for material. Virtually no loans existed at the close of the war. A short-term borrowing of $25,000,000 by the Argentine Republic was satisfied and canceled. A municipal loan of Sao Paulo, Brazil, has some years to run. A similar loan of Rio de Janeiro was floated after the war. Two or three minor loans of less than a million dollars each were made to other municipalities. They are a trifle.

Investments in development enterprises have been on a much larger scale. The spirit of romance and adventure which is latent in every American industrial and financial leader, and which finds its satisfaction in mining ventures, has the most ample field in South America. It already has been responsive to great opportunities there. The abandoned copper deposits of Teniente, fifty miles from the capital of Chile, were reopened through American enterprise when cheaper processes of treating ores were discovered. In ten years an industrial community of ten thousand people sprang up.

In a shorter period the greater copper-field of Chuquicamata, in northern Chile, was revivified from an abandoned mining camp to become the most gigantic copper property in the world, with an industrial community of 15,000 persons dependent on it. Other mountains of copper at Portrerillos and elsewhere in Chile also have been attacked by bold and venturesome American capitalists, with the prospects rapidly turning into certainty. The great iron mountain at Tofo responded to the enterprise of an American steel maker, and its ore becomes tributary to Bethlehem. In Peru the Cerro de Pasco mine of copper, after the investment of many millions in American dollars, has become one of the most productive properties of South America. It is development enterprises of this character which, by creating new business, enlarge the South American market for the manufacturers of the United States.

These and similar American investments are the real basis of the trade of the United States in South America in the new era. At its beginning they amount approximately to half a billion dollars, one half of which is invested in Chile alone.[1]

The Argentine investments are principally in the packing-house plants and in collateral enterprises. Packing-house plants also furnish a considerable part of the Brazilian investments, although railways and water-power plants are of importance. Canadian and British money is in these Brazilian enterprises, but it is intermingled with capital from the United States in a manner hard to differentiate. The point is that the partnership of this capital with Canadian and British associates assures the purchase of material in the United States as well as in England.

The Peruvian investments are mainly in copper mines and the railway and hydro-electric plants which were constructed to develop the mining properties; but there are also other investments in the United States in Peru which from their nature insure the purchase of material in this country.

The future of North American investments in South America can be judged by the existing ones. Mines and railways and hydro-electric plants for the entire continent, packing-house and meat refrigerating plants for the great live-stock country of southern Brazil, Uruguay, and Argentina — all these are the principal reproductive fields that are open to North American

[1] This estimate is based on the author's calculations from personal knowledge. The report of Special Agent Halsey of the Department of Commerce on South-American investments gives a somewhat smaller total; namely, Argentine, $100,000,000; Chile, $225,000,000; Brazil, $50,000,000; Peru, $50,000,000, and other countries, $25,000,000. The Argentine loan was included in this estimate, and should be deducted from the total as of the year 1919.

capital. Port works and irrigation works and other forms of public improvement undertaken by governments, states, and municipalities, are the fields for the investment of capital in the form of loans. It is these two classes that create new business by the markets they open. It is they, too, which are the proof to the several countries that the United States is seeking to facilitate their interests as well as its own. They are the real basis of the future markets. In the next ten years, the United States should supply South America with a billion dollars in the form of loans and actual investments in development enterprises.

CHAPTER XVI

ECONOMIC DESTINY IN THE CARIBBEAN

What the purchase of the Danish Islands foreshadows — The Caribbean crescent as an economic curve — Cuba's sugar-cane and tobacco — Porto Rico's coffee and sugar — British possessions — Jamaica an isolated unit — Proposed Canadian-West Indian Federation — Trade Agreement of 1913 — Panama and Central America — Bananas and coffee — Foreign investments — Economic aspect of increased productiveness in the Caribbean area — Influence of the United States — Positive national policy — The protectorates — Nicarauguan treaty — Benevolent coercion — Santo Domingo's objection — Significance of the Haitian treaty — Promise of stability and order — Future commerce.

NAVAL strategy and national defense caused the flag of the United States to float over what was the Danish West Indies, the Virgin Islands historically, and so designated when they became American territory. It is one of the consequences of the Great War, although it was consummated before the United States entered the war. It is also the realization of a deferred chapter of manifest destiny.

No thought of commerce entered into the purchase of these islands. The trade of the whole group is not capable of much expansion. Yet the acquirement of St. Thomas is a further step in the commercial control of the Caribbean area which geography decrees. It dispels the dream of a British-Caribbean confederation, or a Canadian-West India union. It foreshadows the disappearance of the Dutch flag from Curaçoa, and perhaps in the lapse of time of the French standard from Martinique and Guadeloupe.

The United States has had a close relation with the Caribbean area from the colonial period, when, after Cromwell's seizure of Jamaica, charts of "ye Windward Passage" and of the "West Indies from Cape Cod to the River Oronoque" appeared in London. In Revolutionary days and thereafter the West Indian commerce was important enough for the United States to stipulate for its rights in the carrying trade, and even to include them in the threatened war with France, and in actual war with England in 1812. In those days the trade was very largely a New England one. It was a New-Englander, Timothy Dexter, who, when warming-pans went out of fashion, made a fortune by buying them up and shipping them to the West Indies, where they were sold at a profit for the ladling of molasses. Later the trade became less a New England monopoly. New York became interested in it, and Philadelphia, and still later the South Atlantic ports and New Orleans.

The island rim of the Caribbean crescent extends from the westward end of Cuba to the South American mainland above the mouth of the Orinoco. The mainland between the two horns stretches from British Guiana along the Venezuelan and Colombian coasts, Panama and Central America to the tip of the Yucatan peninsula. Jamaica, and some of the lesser West India Islands, lie well within the crescent. The whole West India group was described by Thomas Coke, a Wesleyan missionary of the eighteenth century, as the scattered fragments of a broken continent situated in an extensive excavation apparently scooped out by the hand of Providence. The bold curve of the Windward and Leeward Islands from St. Thomas to the South-American coast-line completes the island rim of the crescent. North-American expansion is following a geographical line along the bend of the crescent. Caribbean commerce cannot be understood without the knowledge of this political tendency, although definite political purpose may be lacking.

Commerce ceases to be prosaic when it becomes the means that may unite the scattered fragments of the broken continent into a commercial commonwealth under a political shield. The process works out through the operation of geography acting on economic tendencies, in this instance the tendency of the islands, by force of economic gravitation, to be drawn to the United States, and the tendency of the national policy of the United States to draw them to it.

Cuba is a protected American State, republic of Cuba though it be. Porto Rico is territory of the United States, as are the Virgin Islands, with St. Thomas as the naval base. The island which comprises Haiti and Santo Domingo is a protectorate of the United States, whatever official terminology may be used to designate the status of the respective governments. A corollary of this status is the value of stability in enabling the natural resources of these two countries to be developed and thus their commerce increased.

Isolated and widely separated as are the islands of the Caribbean, it is difficult to analyze their commerce as a whole; yet its nature is simple. The principal products are those of tropical agriculture. Sugar-cane is grown in the majority of them. After it, come coffee, bananas, and other fruits; cacao, tobacco, hardwoods, and dyewoods, and the variety of tropical products which in the aggregate form a considerable element in export trade, although the separate commodities amount to little in themselves. It is apparent, therefore, that the Caribbean Islands always will have products to sell which are wanted in the temperate climate. In return they require the products of temperate agriculture, chiefly flour and packing-house goods, and manufactured articles, including large quantities of textiles.

Cuba in area, population, resources, and geographical situation is the most important factor in present and prospective Caribbean commerce. The island industrially and economically is a prospective four-million-ton-sugar-cane proposition.

Production of sugar-cane has not yet reached the maximum. Under the control of Spain, the largest crop in the history of the island up to that time was obtained in the years 1894 and 1895. In each of those twelve-month periods it slightly exceeded 1,000,000 tons. The insurrection which began in 1895 destroyed all normal bases of production until 1904, when the output again exceeded a million tons. From this time on the increase was steady until in the crop year 1915–16 the production was in excess of 3,000,000 tons. For the crop year 1917–18 it was larger. In 1919 it approximated 4,000,000 tons. With world peace restored, and the beet sugar crop of the European countries again normalized, Cuba cannot look forward to the excessive demand of the war period and the high prices then prevailing; but with the consumption in the United States constantly increasing, she can depend on a market for 4,000,000 tons and upward at good average prices. This assures her a large purchasing power.

The fine tobacco, with its excellence of leaf for flavor and aroma which has created a world-wide demand, is of limited productive capacity. This is shown by the failure to increase the crop during the periods of abnormally high prices, when there was every incentive to such a demand. The Vuelta Abajo district of Pinar del Rio, in which the very finest leaf is produced, is of very limited area. The Partidos leaf, which is grown in the eastern part of the province of Pinar and in the western belt of Habana province, is also of limited production. Cuba may count on 50,000,000 pounds of tobacco for export. Because of its high quality, this is a sensible addition to the sugar, but it is only an addition. The value of the sugar products is tenfold that of the tobacco products. Chiefly because of the sugar crop, Cuba has advanced from a foreign commerce of $150,000,000 to $700,000,000 annually, and the bulk of this commerce is with the United States.

In the economic sense, Porto Rico also means sugar, an annual crop of 500,000 tons being the normal production. Coffee, since the market for it was created in the United States, has become a reliable source of income. The trade of the little island is a valuable possession commercially, but the mainland of the United States is a more valuable market for her than she is for continental United States. Her commerce with all countries is a trifle in comparison, less than ten per cent. of both exports and imports. It must be considered, nevertheless, in resolving the factors of Caribbean commerce.

Physically and productively Haiti and Santo Domingo are one. Politically they are two distinct governments, with a frontier-line and with a racial and language line also, since Haiti is the Black Republic, whose people speak a French patois, and Santo Domingo is Spanish in race and language. Haiti's resources consist in coffee, sugar, fruits, and tropical woods. Santo Domingo's are similar, although sugar, cacao, and tobacco are more important than coffee.

The trade prospect as to Haiti and Santo Domingo is largely a political one, with an economic background. The prospect as to the British West Indies is an economic one, with a political background. Geography is a determining factor.

The British possessions in the West Indies comprise twelve thousand square miles of territory, an area about equal to the States of Delaware and Maryland. The population is approximately 1,500,000 inhabitants. The Bahama group of scattered coral reefs constitute one third of the area. Outside of Bermuda, they are of no economic value. They serve chiefly as lighthouse stations. They are not within the Caribbean geographical sphere.

The Windward and Leeward groups of the Antilles, with other scattering islands, constitute another 4000 miles of area. They may be said to have geographical homogeneity. Barbadoes and Trinidad are the chief islands of this group. They are on the outlying rim of the Caribbean crescent, and are easily accessible on the ocean routes. The export products are sugar, cacao, and other tropical agriculture. Demerara, off the South American mainland, is the chief source of sugar production. The island of Trinidad, which, like Demerara, appertains to British Guiana, is the source of asphalt. All these islands are nearer to the United States than to England by from one thousand to fifteen hundred miles. Yet they lie in the route of the steamers proceeding from England to Panama, and they have direct routes of communication with the United Kingdom, so that there is a geographical ground on which to foster their commerce with England.

Jamaica is the isolated island. She lies within the hollow of the connecting chain of American possessions and protectorates, of which the outer rim is Porto Rico and St. Thomas, and the inner rim Haiti, Santo Domingo, and Cuba. The area of Jamaica is in excess of 4000 square miles, or more than one half the habitable area of the British West Indies. The population is between 850,000 and 900,000, or considerably more than one half the total number of inhabitants of these English possessions. The exports to the United States comprise substantially fifty per cent. of the whole, while the imports from this country are larger. Approximately half the total trade of the British West Indies is the trade of Jamaica, and more than half of that is commerce with the United States.

The abolition of slavery in Jamaica in 1830 was the death-knell of the sugar industry. For half a century after freedom this industry rose and fell spasmodically, but it never regained its former activity. Prosperity was restored to the island when a Yankee sea-captain put the fruit industry on a solid footing and began raising bananas for shipment to Boston. This fruit culture has been steadily fomented under American capital, and the result has been that some British capital has taken courage and has built up a trade in bananas and oranges with Jamaica.

Nevertheless, the island has experienced periods of severe economic distress, and whenever this has happened, the planters and the business men have agitated annexation to the United States. The population of color, negroes and maroons, which comprises all but 20,-

000 of the inhabitants, has been apathetic. No one in the United States has paid any attention to Jamaica's annexation suggestions, and good-natured Americans have been mildly astonished occasionally to find themselves attacked as Yankee imperialists who were bent on wresting one of England's numerous ocean gems from the crown of the mother country.

When projects for a British-West Indian confederation have been under consideration, Jamaica always has been looked on as one of the prospective members. The navy yard at Port Royal, across from Kingston, has been an argument, since it is the headquarters of the British West India squadron. There are also historic memories and sentiment, but in the economic and geographical sense Jamaica has nothing to bind it to the other British possessions in the Caribbean or to Canada.

The project of a Canadian-West India federation, with the dominion as the dominating element, is a latter-day agitation. Such a union in the political sense is so improbable as to require little consideration, but there have been tentatives toward closer commercial connection, with a view both to trade advantages and to the extension of the dominion's political influence.

When the Canadian-West Indian trade agreement was negotiated in 1913, this political sentiment was given expression, and those of the colonies which were holding back received strong hints from London that the Imperial Government desired that favorable action be taken. The principal purpose of the agreement was to give the dominion flour manufacturers the market previously held by the flour-mills of the United States. The only concession of value which Canada had to offer was a preference on sugar, and the value of that was slight.

The West India colonies that were the original parties to it were British Guiana, including Demerara and Trinidad, Barbadoes, St. Lucia, St. Vincent, Montserrat, Antigua, and St. Kitts-Nevis.[1]

Jamaica, notwithstanding the pressure from London and from the other British West Indies, refused to participate in the negotiations. She was afraid that if she discriminated against American flour, the United States would discriminate against her products. Canada offered little in the way of an advantageous market to her, certainly nothing that could compensate for the loss of the markets of the United States. Notwithstanding her refusal to participate, Jamaica was voluntarily given the benefit of the arrangement, although making no concession to Canadian flour. At the end of the three years, however, finding that the United States continued to give her a free market, she yielded to the pressure from London and Canada and entered into the agreement.

While the products of the United States suffered some inconvenience, no notable change resulted in the commerce of the British West Indies, and neither Canada

[1] The leading points in the agreement are:

A. The concession of twenty per cent. on Canadian products imported into the colonies as against the duties on similar goods when imported from any foreign country. There is a special provision that on flour the preference in favor of Canada shall not at any time be less than twelve cents per hundred pounds, which is equivalent to twenty-four cents a barrel.

B. The products of the colonies imported into Canada are given twenty per cent. preference on similar goods imported from foreign countries. On sugar the preference provided is more than twenty per cent. and Canada abrogates a concession heretofore given to foreign sugar imported for refining which was claimed to be destructive to the West Indian preference.

C. The governments of the various colonies and of the Dominion may provide that to be entitled to the concessions granted to the products enumerated these products shall be conveyed by direct shipment.

nor they reaped a discernible benefit. The steamship sailings between Halifax and British West India ports were not visibly augmented, and the dream of building up a Canadian merchant marine with a West India base vanished.

The entire scheme is artificial. Geography is all against it. It has no economic foundation. Yet with the impetus given to the imperial impulse by the war, the project may again be agitated, and a serious effort be made to form a Canadian-West India federation. Should the discriminating duties become a serious hindrance to the normal trade of the United States, the Government undoubtedly will find a remedy in its own tariff, and then the question will arise how far the imperial impulse can struggle against geography and manifest destiny. Jamaica is a good market for the United States, but the market of more than 100,000,00 people in the United States is a better one for Jamaica. Economic gravitation draws Jamaica to the United States. Imperial preference cannot change this condition, although it may hold out the promise of a market for sugar, and Jamaica may seek to favor the manufactured products of the United Kingdom. Commercial union with Canada is just as unpromising.

There remain to be considered the Panamanian and the Central American shore of the Caribbean. The operation of the canal and the employes and military forces kept on the zone provide a market, but it is a market that cannot be considered as part of Panamaian commerce, since the Canal Zone is both administratively and politically territory of the United States. Yet the movement of supplies creates a commercial activity in which the whole isthmus shares. Apart from the Canal Zone, the Republic of Panama productively is the source of supply to the United States for bananas, and these in themselves form a considerable commerce.

Coffee and bananas are the principal export products of Central America. Salvador is the only one of the five republics which lacks a frontage on the Caribbean. Guatemala, Nicaragua, Honduras, and Costa Rica all look from their shores to the United States. The production of coffee is principally on the highlands of the Pacific slope, and the canal furnishes the convenient route for this product, which has its best market in Europe. But with the construction of interoceanic railway lines, and the development of the interior regions, the natural movement will be for a greater volume of commerce to flow out from the Caribbean ports. Guatemala and Costa Rica now have interoceanic lines, and Nicaragua will have them in the course of time. Moreover, bananas, which are the most promising source of productive wealth, are grown in the lowlands of the Caribbean coast region. The hardwood forests, which are virtually unexploited, are situated in this region. It is also the seat of the rubber production. The sugar plantations are also most accessible on the Atlantic side.

Aside from any question of political influence, this means that the control of Central American commerce rests with the United States. The Caribbean ports are natural feeders for New Orleans. This trend of the commerce is the economic sequel to the extended line of the national defense of the United States, which begins with the naval station at Guantánamo in Cuba, embraces St. Thomas, and follows the line to Panama. Caribbean commerce and destiny merge.

Much of the trade of the Central-American countries in the present day has resulted from investments made by companies in the United States. The commerce which flows across the Gulf to New Orleans and out through the Atlantic to New York and Boston is, therefore, a legitimate prize. The banana industry, which is the principal source of productive wealth on the Atlantic, or Caribbean, slope, is almost entirely the outcome of North American investments. Part of the railway-building which has helped to develop the interior regions and give their products an outlet to the coast has been carried on by capitalists in the United States, although in the beginning they borrowed the capital in England. The total investments approximate $50,000,000. So much of Central America is yet undeveloped that these investments can be doubled and trebled advantageously to the investors, and to the manufacturers in the United States, among whom new business will be created.

There is a broader aspect in which the future commerce of the Caribbean area should be viewed. It relates to increased productiveness and increased consumption considered as a chapter in social progress.

There is a favorite illustration of the productiveness of the Dakota prairies that has been obtained in the use of improved farm machinery. It is not necessary to repeat the figures of the increased efficiency of a single man on a Dakota farm through these mechanical aids. This chapter in productiveness has many blank pages in the tropics. Yet the use of machinery has greater significance there, because of the inertia of white labor and the insufficiency of black labor. The farm tractor is just at the beginning of a period of added productiveness to tropical lands. In the Caribbean area its field of utility is unrestricted. It is reasonable to expect that within a few years there will be a notable increase in the quantities of the products of tropical agriculture. The consumers are already close at hand. They move in a mass southward closer to their markets.[1]

The hundred million inhabitants of the United States increase so rapidly that within a short period the added population will be able to absorb virtually all the products of the Caribbean area. They will supply with manufactured articles the markets which supply them with food stuffs. Propinquity is the argument both ways. It is in this larger aspect, taken with the political protectorates of the unstable countries, that the economic destiny of the Caribbean area should be viewed.

The national policy of the United States coincides with the economic tendencies of the Caribbean area. A series of conventions or treaties affirms it. This is one of the few instances in which no break is shown, and no national administration overturns the policies of its predecessor. The policy adopted by President Taft's administration in relation to Central America as embodied in

[1] "The old theory of social progress assumed that national and race vitality could be found only to the north of the frost line, and that the nations to the south were bound to be defective and dependent. All this has changed in recent years through the increased control of disease and the spread of better industrial conditions in southern regions. The center of civilization at the present time is 15° south of what it was a century ago. As good a civilization can now be maintained on the 25th degree of latitude as formerly on the 40th.

"In addition to this, radical modifications in our diet have taken place by which southern foods have become important — so important that they are to-day as vital an element in our diet as are the older products of northern regions. Sugar, fruit, rice, bananas, and other tropical plants have now become an essential element in our food supply, and only through further development of these products can a low cost of living be restored. At least one-third of the national diet should be obtained from regions south of the 25th degree."— Professor Simon N. Patten, American Academy of Political and Social Science: Philadelphia, 1914.

the Nicaragua treaty was accepted and carried forward by President Wilson's administration. He had better success than his predecessor in securing ratification of the treaty, which insured the presence of American marines in Nicaragua as a means of preventing domestic disorder. The marines are few in numbers, but their presence is a distinct moral force. It gives encouragement to the development of Nicaraguan resources, and it is an invitation for the investment of foreign capital.

In Santo Domingo a virtual protectorate was established by President Wilson without the formality of a treaty or convention. Secretary Root had negotiated an agreement under which payment of the debt of Santo Domingo was provided for, and the possibility of European intervention in the interest of bondholders was avoided. Under this convention the collection of the revenue was supervised by the United States, and a certain amount set aside for the payment of interest and the amortization of the principal. The arrangement worked so well that there was some apprehension lest the debt be paid off too rapidly.

The convention, however, did not provide for the disbursement of Santo Domingo's proportion of the customs receipts or for the collection and disbursement of the internal revenue. Consequently, the control of these revenues became the ambition of the politicians, and revolution followed revolution.

Secretary Bryan sought to overcome the temptation which the revenues offered by extending the scope of the Root convention so as to insure supervision of the internal revenue as well as the customs duties and the general financial management of the country. His action was resented as an invasion of the Dominican sovereignty. The revolutions continued until the Navy Department, under instructions from Washington, took forcible control of the Government. It decided who should be president, established a rigid press censorship, dictated tariff schedules, and exercised all the attributes of sovereignty. Gradually the conditions improved, and the naval commander allowed the press some privileges of criticism. The Dominicans have not become fully reconciled to the situation, but under the program of the national administration at Washington the people of the country may look forward to an era of security and of political stability, so that in time a new treaty may be negotiated establishing the definite bases of a protectorate.

This was the course followed in Haiti. Washington grew weary of the relapses into bloody barbarism. The navy of the United States took control in one of the worst periods of anarchy. An administration and a congress were set up, backed by the marines. With this executive and legislative creation a treaty was negotiated, under which the United States established a fiscal protectorate over Haiti. Care was taken to avoid the suggestion of a political protectorate, though it was essentially such. This Haitian treaty is one of the most important steps taken by President Wilson's administration in affirming the paramount interests of the United States in the Caribbean.[1]

The benevolent coercion exercised in Santo Domingo and Haiti has been criticized, but its results are its justification. When the time comes to negotiate a new treaty with Haiti, it is possible that the American marines may be entirely withdrawn or reduced to a nominal

[1] For full text of the treaty see Appendix B.

force, as in Nicaragua. But whether this becomes possible in ten years or not, there will be the opportunity for peaceful Haitians to enjoy the fruits of their labor, and there will be added the enhanced commerce that comes from the development of natural resources. The reciprocal influence on trade with the United States will be definite, but it will not be because of any selfish acts. No special commercial privileges were sought by the United States. European countries share the benefits of stability in Haiti and Santo Domingo with the United States. Their capital and their commerce are protected.

It is thus that the Caribbean area, being in the political sphere as well as in the economic sphere of the United States, will fulfil its chapter in manifest destiny.

CHAPTER XVII

CANADA, THE NATION TO THE NORTH

War debt and peace resources — Depth of national spirit — Relation of natural resources to trade — Fisheries and forests — Mineral wealth — Wheat-fields of the Northwest — Other crops — Reasons for daring railway ventures — Basis of industrial development — Iron and steel mills — Fiscal system and preferential tariff — Pre-war commerce with Europe — After-the-war prospects — Trade relations with the United States — Reasons for rejecting the reciprocity agreement — Close business intercourse in the future.

CANADA came out of the war a nation of fewer than 9,000,000 people, with a debt of approximately $1,950,000,000, or $220 for each inhabitant. This is almost nine per cent. of her total national wealth, which has been estimated at $17,000,000,000.[1]

Aware of her natural resources and of her undeveloped wealth, Canada faces the future unflinchingly. Yet there are grave problems to be solved, some of them economic and some of them international. In the new era the dominion must adjust her development to the broadened participation in the affairs and the responsibilities of the British Empire, participation which she sought. This includes imperial preference. At the same time she must recognize the kindlier political relations and the trend to closer trade relations with the United States.

The question suggests itself, Why speak of Canada as a nation, since the Northern commonwealth has been

[1] Estimate of R. H. Coats, Dominion statistician, New York *Sun*, May 27, 1919.

among the foremost in demonstrating her loyalty to England as the mother country, has contributed unstintedly of her means, and has made the sacrificial offering of her blood to maintain the empire of which she is a part?

It is the national spirit of a people that makes a nation, and this national spirit, notwithstanding the super-loyalty to Great Britain, is the dominant trait of the Canadian people. It is the commonwealth consciousness. A few years ago the stranger traveling across the dominion from the Atlantic seaboard to the Pacific was struck by a seemingly trifling circumstance. In the Eastern provinces the hotels usually bore names historically identified with British royalty. King's Hotel, Queen Hotel, the King Edward, the Victoria, the Windsor, were the common titles, and still are. In the great Northwest, amidst the billowy wheat-fields, there were other names. Usually they were of the province, such as the Alberta, the Saskatchewan; or they might be of some pioneer or successful business man whose public spirit found this means of expression. But they showed no knowledge of British royalty.

The "opera-house" which European travelers were accustomed to remark as a characteristic of towns and villages in the United States was equally in evidence in the new Canadian towns, and the names showed no reverence for overseas traditions. It was the prominent citizen again or the local landmark. In the Eastern provinces, tradition; in the West, aspiration, achievement. Yet Canada could not be considered a nation if the West actually was separated from the East in sentiment. The only difference is that in the Eastern provinces the national spirit has not the same exuberance.

But in everything that affects Canada's interests it is scarcely less pronounced.

England made her concession after the rebellion in 1837, when she accepted the recommendation of Lord Durham and left the Canadians to govern themselves. When the provinces were merged into the confederation in 1867, the free play of the national spirit was manifest. England kept her hold by acquiescing not only in substantial political independence, but also in complete fiscal independence for the dominion. Canada makes her own tariffs and determines her own fiscal policy. It is this political liberty and this economic freedom of action which combine to stimulate the national spirit. At the basis of it all is the consciousness of destiny. This consciousness is grounded on the knowledge of the varied resources of the dominion, which make her both an agricultural and an industrial and commercial commonwealth.

The principal national asset of Canada is her agricultural resources; but there are subsidiary assets, which include the forests, the mines, and the fisheries, and which form the basis of national industries. The relation that the natural resources bear to the trade of the dominion may be shown graphically by a tabular exhibit of domestic exports, which at the same time presents a picture of the degree to which the war stimulated production activity. The year 1913 was one of industrial and commercial reaction approaching depression, yet as compared with the following year, it was prosperous. The year 1916 was one of high pressure, munition making, feverish activity. This is the comparative showing in that mid-period of the Great War, of total imports of merchandise and of exports by classes:

Calendar year	Imports for consumption	Exports of Canadian produce
1913	$659,064,000	$ 436,218,000
1916	766,501,000	1,091,706,000

Exports by classes

	1913	1916
The mine	$ 59,073,000	$ 81,281,000
The fisheries	20,237,000	24,350,000
The forest	42,533,000	55,225,000
Animal products	51,613,000	117,910,000
Agricultural products	208,643,000	364,606,000
Manufactures	54,011,000	440,477,000
Miscellaneous	109,000	7,858,000

The increase in manufactured articles was the war phenomenon. It illustrates what the dominion contributed to the munitions of England and France, but it is the minor factor in the commerce of peace. The growth in animal and agricultural products is the notable peace factor.

The harvest of the seas is a contribution both to domestic consumption and to foreign trade. The sea-food resources are principally on the Atlantic coast, although the Pacific coast salmon fisheries are of consequence. The policy of the Dominion Government is to conserve and foment these resources by proper protection. This is possible with the salmon fisheries of the rivers of British Columbia, but the productive forces of fish life in the deep seas are beyond man's ability to regulate. The most that Canada hopes for is to prevent undue waste in drawing them from the ocean waters for the uses of commerce.

The forests are one of the great permanent sources of national wealth to Canada, and a wise conservation policy, partly based on observation of the wasteful policy of the United States, insures their preservation to the dominion. The timber resources are mostly to be found in British Columbia, although the Maritime Provinces and Ontario and Quebec have considerable pine. The great timber wealth of these Eastern provinces, and particularly of Quebec, is in the spruce, or pulp-wood. The dependence of the printing press on Canadian pulp-wood is too well known to require explanation. Canada has utilized it in building up a news print industry of her own, but her chief industrial gain has been through requiring the logs to be manufactured into wood-pulp before the product can be exported. This is done by the provinces, and particularly by the Province of Quebec, prohibiting the export of the logs. This policy has been the subject of remonstrance, protest, and partial adjustment on the part of the United States, but it has not resulted in Canada parting with her primary material of pulp-wood in the crude form.

The mineral resources are widely distributed. They are most abundant in British Columbia, where are found gold and silver, coal, copper, lead, and some zinc. Copper is the most valuable industrial mineral. Southern Alberta has coal. Ontario has iron ore of a low grade along the northern shores of Lake Superior. It also has nickel, which is almost a world monopoly, since this mineral is produced in few places. Nova Scotia has coal, which is the basis of iron and steel industries.

Agriculture is the enduring foundation of Canada's natural wealth.[1]

[1] Computed at average local market prices, the values of the field crops in 1914 were as follows: wheat, $196,418,000; oats, $151,811,000; barley, $21,557,000; rye, $1,679,300; peas, $4,895,000; beans, $1,884,300; buckwheat, $6,213,000; mixed grains, $10,759,400; flax, $7,368,000; and corn for husking, $9,808,000. For all field crops, including root and fodder crops, the total value amounted to $639,061,300; as compared with $552,771,500 in 1913, the increase of $86,289,800 being chiefly due

The Eastern provinces produce a variety of export commodities and the dairy industry is an important factor in the foreign trade. The flour-mills of Ontario and Quebec depend partly on the wheat-fields of those provinces. Their production is about 30,000,000 bushels annually, or hardly more than is needed for local consumption.

The wheat-fields of the Northwest, which stretch as in a vision from Manitoba to the arctic circle, are the asset of the future as well as of the present. It is not given to human foresight accurately to judge their probable productiveness. The minimum estimate of Professor Mavor, the economist who in 1905 made an investigation for the British Board of Trade, was 300,000,000 bushels. The maximum estimate, which was 1,000,000,000 bushels, may prove a wild guess, but the demonstration can come only from experience.

The possibilities of the great Mackenzie basin and the Peace River region are for the future to uncover. All that so far is known is that the wheat area gradually has extended beyond Manitoba, which a generation ago was thought to be its limit. The farther north cultivation extends, the more Canada becomes a one-crop country, with all the uncertainties that result from dependence on one crop. But out of this also comes the average wheat yield that may be expected through a period of years, and a country's agricultural wealth is thus to be measured rather than by a single bumper year or by an unusual succession of bad crops. An average annual crop of 250,000,000 bushels of wheat in the

to the enhancement of prices, which has thus more than counterbalanced the low yields of grain caused by the drought. Report of John G. Foster, American Consul-General at Ottawa, 1915.

Canadian Northwest is not an exaggerated estimate.

The prospect of the live-stock industry is a mooted one, but climate is an intractable agent. More feed is required where the winters are longest. That is axiomatic. Moreover, mixed farming, and even wheat-growing, offer better returns in the Alberta region, where the mild chinook winds from the Japanese current encouraged stock-raising until it was found more profitable to devote the land to wheat and to general farming. Hog-raising is possible only on a limited scale in the Eastern provinces, where corn can be grown.

Climate bars corn, or maize, in the great Northwest. During the debate on the Taft Reciprocity Agreement, some congressmen of the old-school saw the ruin of the western farmer in the United States because Canadian corn was to be admitted free. Apparently, they thought that the Canadian maize-fields would extend up to the arctic circle. Corn, of course, can be raised in the extreme Northwest, just as can bananas or oranges; but only in hothouses. It can hardly be regarded as an element of Canadian agricultural wealth. Mixed farming is the feature of agriculture in British Columbia, while orcharding is a very prosperous industry; but in the wildest sense the live-stock industry and mixed farming are to be considered as factors in domestic production and consumption rather than in the Dominion's foreign trade.

Canada's national policy has been an evolution from her natural resources. The first need was of transportation. Consequently, came the splendid system of canals leading through the Great Lakes, so that the wheat found an outlet to the Atlantic. The railways were at first subsidiary. Then came the grand dream of a transcontinental line. Sir John Macdonald bullied and bribed the Canadian Pacific subsidy through the Dominion Parliament in the face of strenuous and entirely sincere opposition because of supposed natural obstacles. At that time the Northern Pacific had not been constructed, and the prophets in the United States who foresaw that climatic conditions were an insuperable obstacle to it had their brother prophets in Ottawa.

The Canadian Pacific was followed twenty years later by the project of the Grand Trunk Pacific hundreds of miles farther north, with its terminal at Prince Rupert, and then by the Canada Northern, still farther north. The war found these projects overwhelmed with financial burdens. The war leaves them further burdens on the hands of the Government. Whether it was actually necessary to the national development to build the lines so far North is in the lap of the future to determine. The same may be said of the line to the Hudson Bay. Its construction is a simple engineering proposition, and its operation, under unfavorable climatic conditions, is not impracticable; but the problem of warehousing the wheat for a year on the shores of Hudson Bay, and in the following season getting it out through James Bay to Liverpool, is a serious one.

If these vast railway projects fail to fulfil their purposes, the statesmen responsible for them will be charged with recklessness, and will be held responsible for a losing investment of hundreds of millions of dollars. But they will not be responsible. They were simply men of vision who responded to the impulse of the commonwealth. They would not be statesmen had they not undertaken the projects, for actual experiment was the only means of determining the feasibility of the enterprises. The national spirit of Canada would not be satisfied with anything less than a try-out, and it is the Canadian nation which in reality is back of them.

The industrial development of Canada has been a logical one, though stimulated by artificial means. Possessing the mineral resources that she does, the adoption of the protective policy, which essentially is a nationalistic policy, was inevitable. The raw material in the form of water-power was a contributing cause.

The iron and steel industry is situated in two regions. One of these is the Cape Breton district of Nova Scotia, where there is abundance of coal. The iron ore is obtained from the Wabana Range of Belle Isle, Newfoundland, and also from Spain and Sweden. The favorable situation at tidewater for assembling the raw material was declared to be ideal for cheap pig-iron production, and the development of enormous plants with world markets was predicted in consequence. An industry of some importance has been built up, but the early dreams have not been realized.

The establishment of iron and steel mills at the Sault Sainte Marie was largely a matter of geography. There was some local ore of low grade, but the chief consideration was that high-grade ore could be brought cheaply across Lake Superior from the Mesaba Range, and coal be obtained from Lake Erie ports, while there was the further consideration that the manufacture of steel rails at this point had distinct advantages for railway construction through the Northwest. The iron and steel industry, in its various forms, and particularly in the production of pig-iron, was encouraged by heavy subsidies and bounties both from the Dominion and from the Provincial governments.

How far the general industrial development was hastened, if at all, by the failure to secure reciprocity with the United States necessarily must always remain a matter of opinion. Under the policy adopted by Canada many industries in the United States were compelled to establish branch factories in the dominion. Some of these branch factories undoubtedly would have been provided for convenience in assembling raw material and for distribution of the finished products. Others unquestionably have been established because the fiscal policy of the Government forced it. Without regard to their relation to parent industries in the United States they are Canadian industries.

Canada's commercial relations are of a mixed character. They are based on the pre-war European construction of the favored nation treatment, on special trade agreements, and on a triple tariff system. The principle of preferential rates was instituted by the Tariff of 1907. As provided for by that act and in subsequent legislation, there are four separate schedules, the general, the preferential, the surtax, and the treaty rates. The preferential is reserved for products of the United Kingdom and certain British possessions; treaty rates are comprised in the intermediate, which represents the concessions that the Government makes to other countries in return for reciprocal concessions; the general tariff is applicable to imports from countries to which neither of the other schedules has been applied. The surtax is the fighting rate added to the general tariff.

The British preferential schedule originally represented a preference of approximately twenty per cent. over the intermediate rates, but it was enlarged until it represented on most commodities an advantage equivalent to thirty-three per cent. In the war-revenue legislation the relative advantage of the British preferential was increased. Duties applying to other countries, principally the United States, were advanced seven and one-half per cent., and to the United Kingdom two and one-half per cent.

This fiscal legislation was supplemented by what was known as the anti-dumping clause. This was an ingenious provision for giving further protection to Canadian manufacturers by preventing manufacturers in other countries selling at lower prices in the dominion than in their home market. It was aimed chiefly at the United States.

Under this fiscal arrangement, which was in effect when the Great War began, according to the Canadian import statistics the United States was selling in the dominion market goods to the value approximately of $411,000,000; the United Kingdom, $132,000,000; France, $14,250,000. Canada, whose chief export commodities were agricultural products, was sending goods to the United Kingdom to the value of $222,300,000; to the United States, $200,500,000; and to France, $3,800,000.

Canada's trade relations with the Allied countries will not be radically changed under the readjustment of the new era. They are likely to continue on the basis of the present intermediate tariff and treaty rates.

France is the only one of the Allied European countries that has a large market for her products in Canada, and these are specialties. Should she receive a further reduction in duties, it might enable her to compete better with Great Britain in a few lines of light manufacturing. Canada, on her part, would expect entry into the French market on favorable conditions. The Franco-Canadian trade treaty of 1911, with its curtailment of the British advantage both in Canada and in France, was a piece of very delicate trade diplomacy; but, true to her policy of non-interference with the economic policies of the colonies, England acquiesced.

With old Russia Canada had slight trade. She imported few Russian products, but she would like the Russian market for agricultural machinery on preferential terms. Russia could not give her greater advantages than were conceded to the British Imperial Government, and was not in a position to discriminate against the United States.

Relations with the enemy countries mean Germany and Austria-Hungary. Turkey and Bulgaria are unimportant. That there will be a continued discrimination against the products of the former Central powers is foreshadowed, but since there is little market in Canada for Austrian goods, what is left of that empire will not be seriously disturbed. Germany, for several years, from 1903 to 1910, was subjected to the surtax, and she denied Canada her conventional rates. Both countries felt the inconvenience, and an arrangement was made under which certain German conventional rates were extended to Canada, and the surtax was withdrawn. The imports from Germany in the fiscal year 1914 were $14,500,000, and the exports $4,400,000. In the future Germany's chief concern will be over the attempt to deprive her of raw materials for her industries.

The trade relations of the dominion with the United States are a chapter in themselves. Geography has decreed that they be reciprocal. This was the aspiration of Canadian statesmen long before the confederation was formed. Reciprocity was established by the Elgin-Marcy Treaty of 1854, but the products whose exchange was provided for in that arrangement were natural ones. This treaty worked more to the direct financial advantage of Canada than of the United States, yet the disproportion was not serious enough to cause its abrogation by the United States in 1867, had not the resentment in the North over the refuge which the dominion had afforded to the partizans of the South been worked upon.

After the abrogation of the Elgin-Marcy Treaty there followed the period of pilgrimages of Canadian statesmen to Washington, the projects for commercial union, for complete free trade, and for reciprocity under various forms, which were ineffectually supported by Benjamin Butterworth, Robert R. Hitt, and other far-sighted members of Congress. The continued rebuffs chilled the Canadian advocates of reciprocity, and the pilgrimages closed. When the Reciprocity Agreement of 1911 was negotiated by President Taft with the government of Sir Wilfrid Laurier, circumstances in the dominion had greatly changed. The agreement was negotiated in the spirit of mutual benefits. Canadian agricultural products received important remissions of duty into the United States, while there were similar remissions on the products of the United States into Canada. Contrary to a widely held opinion, Canada offered, and still offers, an excellent market for surplus farm produce of the States.

The motives which caused Canada to reject the agreement after it had been enacted into law by the Congress of the United States were her own affair and not to be questioned by a friendly government. Nevertheless, in passing, some of the reasons which influenced the dominion electorate are worth analyzing. One, undoubtedly, was purely political. The Liberal party had been in office fourteen years. Like all political organizations which have a continuous lease of power, disaffection had grown up inside the ranks. Ambitious younger men found that the path to preferment was closed to them by their elders. Naturally they sought an issue which would enable them to upset the existing leadership, and they found it in opposing reciprocity.

There was also the appeal to political passion. On its surface this was a manifestation of loyalty to the mother country. Deeper, it was the assertion of the spirit of Canadian nationality. The specter of annexation to the United States was invoked both by the ultra-loyalists and by the nationalists. The utterances of loose-thinking and careless-speaking public men in the United States contributed to stimulate this feeling of nationality. They spoke of annexation and reciprocity as if reciprocity, which was purely an economic question, were a political one. In the appeal to passion and prejudice by plausible politicians it was humorously remarked that some of the ultra-loyalists in the Eastern provinces thought they were getting even for the persecutions of their ancestors, the Loyalists of the American Revolution, who took refuge in Canada.

But the most potent consideration was material and practical. Canadian manufacturers were alarmed at the prospect of a broader reciprocity in manufactured articles. Powerful transportation companies, which feared that the bulk of the wheat crop of the Northwest would be carried across the line to American flour-mills, and that they would lose considerable traffic, vigorously opposed the agreement.[1]

Equally powerful financial influences were involved with the transportation interests.

Moreover, a perfectly good argument was put forward by the opponents of reciprocity. This was based on political portents in the United States. The signs of a reaction were fairly clear, and it was a reasonable deduction that the party would soon come into power which would reduce duties without regard to the action of other countries. This argument was justified by events. Under the tariff law of 1913 the dominion got for nothing all that she made concessions to obtain in 1911.

The rejection of the Reciprocity Agreement by Canada caused no resentment in the United States. It passed almost without comment. It cannot be assumed, however, that Canada will continue to receive all the benefits of the market of the United States and give nothing in return. The repeal of the Reciprocity Act will be the first step toward equalizing the benefits.[2]

During the very dull times in the iron and steel industry in 1914 a Western railway bought rails of the Canadian mills. It could afford to do this because there was no duty on the entry of these rails into the United States, but the mills which would have liked to supply

[1] A provision for the free admission of wheat, similar to that in the Reciprocity Agreement, was contained in the tariff law of 1913, but was ignored by the Dominion Government until April, 1917, when the United States had entered the Great War on the side of the Allies. An order in council was then passed which insured free wheat between the two countries.

[2] As this book goes to press a bill to repeal the Act is pending in Congress.

the Canadian railways were kept out by means of the dominion duty, in addition to the stringent anti-dumping provisions. This is a condition of non-reciprocity which is not likely to be acquiesced in when dull times come again in the steel trade. The same observation applies to agricultural implements and in larger measure to agricultural products.

Imperial preference presents vital questions to Canada. Colonial preference was not at bottom an economic policy. It was granted by the dominion in order to secure recognition in the affairs of the empire as administered from London. When this recognition was not granted, the policy was continued, but with lessened enthusiasm. Now that the recognition is complete, sentiment will be very strong in favor of tariff discriminations. This, however, will not be at the expense of Canada. The effort will be to extend them at the expense of the United States. This was the policy followed during the war in the progressive-taxation measures. Yet the trade of the United States grew. During hostilities the imports from the United States ranged from seventy-five per cent. up to eighty per cent. of the total. That is the normal measure of the business. The tendency is strengthened by the control of exchange on the part of New York, and by the huge volume of Canadian securities absorbed during the war. Provincial and municipal loans were taken liberally at the outset, and there was no cessation in the movement. London had ceased to be a reservoir of capital for Canada, and imperial preference cannot alter this condition.

Canada's political relations with the United States are now of a most friendly character. Many causes of irritation, some of them a century old, were removed when Elihu Root was secretary of state. The settlement of the Alaska boundary controversy, the Atlantic fisheries dispute, and numerous other controversial questions by Mr. Root is a luminous chapter in American diplomacy. It formed an enduring basis of friendship and of coöperation. It opened the way to the adjustment of trade relations on a normal basis without prejudice or resentment on either side. The coöperation of the United States in the Great War has immensely strengthened the friendly feeling.

Propinquity has decreed that Canada shall buy largely of the United States. It has made the dominion in effect a domestic market, notwithstanding the political separation and the fiscal barrier of a tariff. Equally, propinquity has made the United States a domestic market for Canadian products. Commerce with the United States is mutually the line of least resistance. Geography argues effectively against undue extension of the imperial interests in economic conditions which are the basis of trade relations. In the adjustment of these trade relations Canada's status as a nation is more firmly than ever established, because the Imperial Government is certain to acquiesce in whatever the commonwealth overseas determines. The nation to the north is the mistress of her own economic, as of her own political, destiny. But she is destined to be the neighbor market for a billion dollars worth of products from the United States.

CHAPTER XVIII

JAPAN AND MUTUAL MARKETS

New riches — Herbert Spencer's rejected advice — Gains from Western civilization — What the island power is — Sparse agricultural resources — Nationalization of raw materials — Political evolution — Winning of economic independence — Fiscal policy — War prosperity — Fundamentals of future commerce — Trade relations with the United States — The Knox Treaty — Questions of the Pacific.

JAPAN, emergent from the Great War, is newly rich, aggressive, and progressive. Her sacrifices, from the nature of her geographical situation, remote from the scene of hostilities, were few. Her legitimate gains were many. Industrially, financially, and commercially she is immeasurably strengthened. Her national debts in 1919 were less than they were in 1914. She was a creditor for loans advanced to her allies. Her bank deposits had increased in the five-year period fifty per cent. Her foreign trade, measured both in exports and in imports, had gained more than one hundred per cent. It was approximately $680,000,000 in 1914. It exceeded $1,600,000,000 in 1919.[1] This is the nation that in the new era is to be recognized in a two-fold aspect — as a single country and as the controlling Asiatic power.

Herbert Spencer's advice, proffered in that curious letter to Baron Kaneko in 1892, for Japan to remain isolated from Western civilization, reads strangely now. The philosopher would have had Japan maintain the

[1] "Economic and Financial Annual of Japan." Tokyo, 1918.

civilization of the Orient as against the Occident, by keeping foreigners at arm's-length, by preventing them from owning land, by denying them commercial privileges, by prohibiting them working the mines, and by interdicting intermarriage. The parts of the letter relating to inter-marriage are not pertinent to his views relating to commercial intercourse and may be omitted. His objection to permitting foreigners to work the mines was that quarrels probably would arise, and that the Western governments would send armed forces to enforce the claims of their nationals. On the subject of isolation as a policy his words were:

The Japanese policy should, I think, be that of keeping Americans and Europeans as much as possible at arm's length. In presence of the more powerful races your position is one of chronic danger, and you should take every precaution to give as little foothold as possible to foreigners.

It seems to me that the only forms of intercourse which you may with advantage permit, are those which are indispensable for the exchange of commodities — importation and exportation of physical and mental products. No further privileges should be allowed to people of other races, and especially to people of the more powerful races, than is absolutely needful for the achievement of these ends. Apparently you are proposing by revision of the treaty with the Powers of Europe and America "to open the whole empire to foreigners and foreign capital." I regret this as a fatal policy. If you wish to see what is likely to happen, study the history of India. Once let one of the more powerful races gain a *point d'appui* and there will inevitably in course of time grow up an aggressive policy which will lead to collisions with the Japanese; these collisions will be represented as attacks by the Japanese which must be avenged as the case may be; a portion of territory will be seized and required to be made over as a foreign settlement; and from this there will grow eventually subjugation of the entire Japanese empire. I believe that you will have great difficulty in avoiding this fate in any case, but you will make the process easy if you allow of any privileges to foreigners beyond those which I have indicated.

Foreigners should not hold land.

In pursuance of the advice thus generally indicated, I should say, that there should be, not only a prohibition of foreign persons to hold property in land, but also a refusal to give them leases, and a permission only to reside as annual tenants.

In pursuance of the policy I have indicated, you ought also to keep the coasting trade in your own hands and forbid foreigners to engage in it. This coasting trade is clearly not included in the requirement I have indicated as the sole one to be recognized — a requirement to facilitate exportation and importation of commodities. The distribution of commodities brought to Japan from other places may be properly left to the Japanese themselves, and should be denied to foreigners, for the reason that again the various transactions involved would become so many doors open to quarrels and resulting aggressions.

The import of the philosopher's advice was to reverse the policy that had been initiated when Commodore Perry opened the door to Western civilization, and Japan welcomed it. Had his advice been followed in the sense meant of Japan isolating herself from world affairs, she would have become the secluded power instead of the dominant power of Asia. Japan rejected it, and placed herself on an equal footing with Western powers; yet it is to be observed that she does not permit foreigners to own land, she keeps the mines under government control, and, without denying foreigners participation in the coasting trade, she keeps the mastery of it.

What is this nation which looms so large in world trade?

It is an island power, poor in natural resources, with an area of 260,000 square miles, or about that of the State of Texas, with a population of 57,000,000 inhabitants of Japan proper, with 17,000,000 Koreans, and 3,600,000 Formosans, thus forming an economic group of more than 77,000,000 people. It is a group in which the birth-rate outstrips the death-rate, and the calculation of natural increase must be given full play in its economic and political development.

The raw resources are sparse. Rice is the chief agricultural product, and is also the principal food, though large quantities of it are exported. Wheat is produced insufficiently for a population a small proportion of which can afford a wheat diet. Barley, potatoes, and rye are also insufficient crops. There is some tobacco and soya-beans for export. Domestic animals are very scarce, and the number of sheep is not equal to those on a small sheep-ranch in Wyoming. Fish is abundant, and is a staple food, second only to rice. Sugar is produced in Formosa, and is exported, although there is not enough of it to supply the needs of more than a fraction of 77,000,000 people were they accustomed to sugar. Tobacco is raised chiefly for export.

Tea is the principal agricultural crop, and is produced far in excess of the domestic demand. Silk culture is the most productive native industry. A native straw is grown which provides material for plaiting and for hats. The native clays have the qualities out of which fine porcelain is developed, and they form the basis of a profitable industry.

These are the primary resources of a people whose political progress has been simultaneous with their industrial development. They are the people whose silk of their own raising gave them the key to a phenomenally swift transition from hand labor to machinery. It was they who, showing this remarkable facility, established a textile industry for which the raw wool and the raw cotton had to be brought from other countries. It was they who developed a ship-building industry of their own in keeping with their maritime situation, and who have established iron and steel industries that are basic, although not yet greatly advanced.

In this industrial development they began with a policy of nationalization of the raw materials that lay beneath the surface of the soil, and followed it with the nationalization of the systems of transportation, the railways being brought completely under government control, and the steamship lines, by means of subsidies, being held in a condition of subjection equivalent to making them government steamship lines. In the development of the domestic industries the protectionist policy has been accepted and applied.

The political evolution, which has been contemporaneous with this industrial development, is a well-known chapter. Only its outlines need be given, and that may be done very briefly.

The Christian powers, after Commodore Perry pried open the door, were not ready to recognize Japan as a fully civilized power. In the treaties of 1858 with Great Britain and other countries she parted with two essential attributes of sovereignty. Her judicial autonomy was restricted by the functioning of the foreign courts with their extra-territorial jurisdiction. Her economic independence was smothered under the fixed tariff rates. When Japan began to emerge from the old order, her first effort was to regain her political independence. This was conceded by the United States in the treaty of 1878, but it was non-effective because the other powers would not agree to it. The surrender of extra-territorial authority and of customs control was not won from the European powers until a series of treaties were negotiated in the years from 1894 to 1899. Her right to control her own fiscal system having been acknowledged, Japan laid the foundation of her commercial intercourse with the rest of the world by the tariff treaties of 1911.

A rapid survey will show how native industry was developing and international commerce expanding under these trade-treaties. In the tariff of 1911 the import duties were chiefly specific. Export duties had been abolished a dozen years earlier. Under the new schedules, raw materials were for the most part admitted free, and semi-raw materials were given very light imposts. Manufactured goods paid rates ranging from fifteen per cent. to forty per cent., according to the classification, and luxuries paid fifty per cent.

Japan exported raw silk and silk products, copper in semi-finished form, gold, tea, rice, porcelains, and plaited straws, principally to Europe and the United States.

She exported, mainly to China, cotton goods and sugar. She also exported small quantities of marine products, oils and fats, and some metal manufactures. Her principal imports were grains and flour and sugar among food stuffs, drugs and chemicals and oils and waxes for domestic consumption. Cotton to feed her mills was the most important commodity. There was also raw wool. Machines, machinery, and miscellaneous iron and steel products furnished the category of manufactured products.

The period just preceding the outbreak of the Great War found Japan in the valley of depression. There was an adverse balance of trade. Industries were greatly depressed. Commercial movement was limited, while finances were in a bad state, and the interest charges on the national debt which had been incurred in the war with Russia was an oppressive burden that threatened to smother the industrial life of the people. These unfavorable circumstances were attributes principally following the inflated trade and finances resulting from the Russo-Japanese War.

In the first stage of the Great War the depression was accentuated by the slump in the exports of raw silk, and the other interferences with the commodities of international commerce. This condition did not last long. England knew Japan's industrial capacity. Munitions orders rolled in. The shipyards became phenomenally active. Vast profits poured into the country from the merchant marine. These profits were reinvested in chemical and industrial factories and machine shops which provided manufactures that could not be obtained from Europe because the factories there were too busy making raw materials. Some machinery, however, it was found could be obtained, and the United States was the source of supply. In the year before the war iron for the shipbuilding and metals industry had been obtained almost exclusively from Great Britain and Germany. England was able to supply some of this material still, but the United States was turned to, and until it entered the war helped fill the gap. In the supply of machinery the same thing happened.

Japan continued to receive raw cotton from the United States without interruption until the armistice was signed. The ending of hostilities found the foreign trade of both countries visibly increased. Its fundamentals have not changed during the period of hostilities. They are the fundamentals of future trade, and are therefore worth analyzing. In the year before the war, in addition to raw cotton, Japan took from the United States some flour, considerable kerosene, some rails and locomotives, bar iron, plates, machinery, and engines and construction materials generally.

The United States took from Japan raw silk to the amount of two-thirds of the total exports of this product. During the war the figures mounted to eighty-six per cent. It also took tea, and the variety of porcelains for which Japan is noted, along with straw plaits, mats, and the like. These commodities may be said to be the principal products of exchange in the future. The two countries are ideally situated for mutual commerce. The United States can absorb large quantities of Japanese products, because they are commodities which it does not produce itself. Japan, on her part, notwithstanding her growth as an industrial nation, is in a position to absorb increasing quantities of machinery and iron and steel products, especially for shipbuilding, as well as raw cotton for her textile mills. That the balance of trade as measured in values runs somewhat in Japan's favor does not prejudice the desirability of the United States maintaining and fomenting this intercourse. It is a commerce that will mount rapidly to a quarter of a billion dollars annually even with decreasing values. After that the growth may be more gradual, but none the less certain.

Trade relations between Japan and the United States may be said to rest on the Knox Treaty of 1911. Its provisions concerning commerce embody the favored-nation treaty under the American construction. They are found in two articles.

> Article V. The import duties on articles, the produce or manufacture of the territories of one of the High Contracting Parties, upon importation into the territory of the other, shall henceforth be regulated either by treaty between the two countries or by the internal legislation of each.
>
> Neither Contracting Parties shall impose any other or higher duties or charges on the exportation of any article to the territories of the other than are or may be payable on the exportation of the like article to any other foreign country.
>
> Nor shall any prohibition be imposed by either country on the importation or exportation of any article from or to the territories of the other which shall not equally extend to the like article imported from or exported to any other country. The last provision is not, however, applicable to prohibitions or restrictions maintained or imposed as sanitary measures or for purposes of protecting animals and useful plants.
>
> Article XIV. Except as otherwise expressly provided in this treaty, the High Contracting Parties agree that, in all that concerns commerce and navigation, and privilege, favor or immunity which either Contracting Party has actually granted, or may hereafter grant, to the citizens or subjects of any other State shall be extended to the citizens or subjects of the other Contracting Party gratuitously, if the concession in favor of that other State shall have been gratuitous, and on the same or equivalent conditions, if the concession shall have been conditional.

A protocol in the treaty provides for the continuance of commercial relations on the preëxisting basis until the conclusion of a treaty relating to tariff. From this it is evident that a special convention was in mind as a basis for trade relations. Such a convention would be a reciprocal one in which there would be little difficulty in making mutual concessions. The question is how far Japan would go in making genuine concessions to the products of the United States.

The Anglo-Japanese Treaty of 1911 did not discriminate against American products. Under the favored-nation clause the United States got similar treatment for its products; but since the Japanese tariff was framed chiefly with a view to making concessions to English goods, there was little actual advantage to this country. When it comes to negotiating a trade treaty with Japan, the United States will be justified in insisting on concessions that are of real benefit to its products. The balance of trade will be likely to continue in favor of Japan under any commercial arrangement that may be effected, since the United States has greater powers of absorbing Japanese products than Japan has of absorbing the products of the United States.

The increasing importance of the United States in the trade of Japan has been set forth in an authoritative official manner:

Twenty years have brought about striking changes in the distribution of Japan's exports and imports among the individual countries which have shared in the total trade. In early years Great Britain was the most important source of Japan's imports, but she took only a small share of Japan's exports; the United States took as large a proportion of Japan's exports as Great Britain contributed to the imports, but sent to Japan in return only about two-thirds the amount of imports supplied to Great Britain. By 1913 Great Britain and the United States were contributing almost equally to Japan's imports, but the United States was taking of Japan's exports almost six times as much as the share taken by Great Britain.

The United States has been for a long period the most important market for Japanese exports. In one year only since 1897 have the Japanese exports to the United States been exceeded by those to any other country: In 1905, as a result of exceptional conditions arising from the Russo-Japanese War then in progress, the exports to China exceeded those to the United States. In all other years since 1897 the exports to the United States have been considerably greater than those to any other country, the exports to China generally being next in importance. In 1913 the figures were as follows: Exports to all countries, 632,460,000 yen; United States, 184,000,000 yen; China, 154,000,000 yen; France, 60,000,000 yen; Great Britain, 32,800,000 yen; British India, 29,800,000 yen; Italy, 29,400,000 yen. In that year the United States took 29.2 per cent of the total Japanese exports, as compared with 24.3 per cent to China, and 19.3 per cent to France, Great Britain and Italy combined.

A review of the export trade of Japan during the last 20 years shows that at no time has the United States taken less than 25 per cent of the Japanese exports, while from 1907 to 1916 the exports to the United States averaged 31.1 per cent of the total exports. The highest percentage ever taken by China was 27.7 in 1906, during the Russo-Japanese War; in other years the percentage of the total exports shipped to China was considerably less. The British maximum was 12.6 per cent, in 1917; the greatest proportion ever sent to British India was 6.3 per cent, in 1916. In most years the exports to the United States exceeded those to any other three countries combined. Of Japan's greatly increased exports in 1916 and 1917, 30.2 and 29.8 per cent, respectively, were sent to the United States. The United States has for a long time been and remains the best market for Japan's exports.[1]

The review of their actual trade shows how much

[1] "Japan: Trade During the War." United States Tariff Commission: Washington, 1919.

Japan and the United States have in common. The résumé of the trade relations demonstrates that these are easy of adjustment. Every sign, therefore, points to a beneficial mutual commerce between Japan and the United States, since the markets are literally mutual. This normal trade is not, however, the end of all. There is other trade in the Orient, on the Asiatic mainland, which is of immeasurable concern both to Japan and to the United States. It relates principally to China, but it embraces virtually the whole question of the Pacific, whether the mastery of the Pacific, the supremacy of the Pacific, or the sharing of the Pacific is in mind.

CHAPTER XIX

CHINA AND THE COMMERCE OF THE PACIFIC

Economic definition — Mineral resources — Nature of foreign trade — Small volume — Relations with other countries — John Hay's open door — Root-Takahira Declaration — Lansing-Ishii Agreement — China's own statement — Japan's economic overlordship — Outcome at peace conference — Bankers' loans — Influence on material development — Fiscal policy — Economic independence the acid test for the great powers — United States as an interested friend.

WHAT is China?

The question must be answered variously. Historically, she is a static nation, with occasional signs of dynamic forces working upward from beneath the ossified crust of her ancient civilization. Geographically, viewed as China proper, with Manchuria included, and with Mongolia, Tibet, and Turkestan excluded, she is an area of a million nine hundred thousand square miles, with every variety of climate, and with three hundred and fifty million inhabitants settled over that area. Industrially, through her mineral resources, she is the vast reserve of the Asiatic continent. Fiscally, she is a medley. Internationally, she is a world problem. Diplomatically, she is a derelict. Nationalistically, she is an enigma.

The first concern is with China economically, which means with her as the region whose productive resources mark her as the market of the years to come. The industrial perspective is of raw materials; the trade prospect is of the wants which those three hundred and fifty million people, constituted as a single body of consumers, may acquire and of the articles they, constituted as a single body of producers, may provide for sale.

Agriculture is the chief source of actual buying power in the raw materials that go abroad. The mulberry-tree is the fruitful factor, for raw silk is the most valuable product that is obtained for export. After it come soya-beans and other oil seeds; tea, skins, hides and furs, medicinal herbs, nuts, oils, and some wool and raw cotton, which in the economic sense would be better utilized at home.

Mineral resources are the potential purchasing power, for they are the industrial reserve. Some of them, as in the case of tin, are also the active element among the raw materials. There are twenty-five or twenty-six kinds of minerals found within the borders of China. The tin amounts to five per cent. of the world production of this metal, and there are large deposits yet untouched. There is lead and zinc and antimony in exportable quantities. There is also copper, some of which is exported, although this metal is used so largely in the coinage of China that for reasons of geography quantities of it have to be imported to meet this use. Oil exists in quantities which are yet only guesswork, but the extent of which is demonstrated to be a genuine national asset.

Coal and iron ore are the dominating economic factors that show the industrial possibilities of China. In a general résumé it is not necessary to exhibit in detail the geographical situation of these minerals or to specify where they lie in proximity, so that they may become the basis of iron and steel works. The relation of the iron and coal deposits to railway building and internal development may be inferred.

Coal reserves are estimated scientifically, and not speculatively, at a thousand billion tons, or, as it is put graphically, sufficient to keep the world going at its present rate for a thousand years.[1]

Iron ore reserves are estimated at a half billion tons. This estimate, like that of coal, has a scientific basis, and is not speculative. The known ores available for treatment have been mapped out in connection with the various foreign concessions, and they are the basis of the estimate.

Industry is declared by some observers to be the predominant attribute of the Chinese people. Whether they really have a passion for labor, as has been asserted, or whether their laboriousness is due to the harsh necessities of providing existence, may be left to individual opinion. But it is the testimony of those who best know the people that their industrial faculties are highly developed. The Chinese finger has a suppleness and delicacy of touch which has given rise to numerous artistic products, such as intricate wood-carving, ivory miniature painting, and fine embroidery. But it is not simply in articles of delicate production for which manual dexterity is required that the Chinese are efficient. They have other qualities.

The pig-iron of the blast-furnaces in Manchuria and the steel-making plant at Han-yang are the examples most often cited of their capacity for physical labor of the most exacting kind. It is doubtless true that the Chinese have a double capacity of muscle and of brain,

[1] Report of V. K. Ting, Director of the Geological Survey of China, 1917.

but in the broader generalization the population as a whole may be said to fit the statement that the Chinaman fulfils in the highest degree the ideal of an intelligent human machine. What this people ultimately may accomplish when they become fully molded to the new enterprises that fall outside of tradition is conjectural. It is a conjecture, however, which must be borne in mind in every discussion of the resources of the vast territory and the transference of raw material into finished products. It also must not be forgotten in seeking to solve the political problems that are certain to arise.

The foreign commerce of China follows elementary lines. The market abroad, which includes proximate countries, such as Japan, is for raw silk, raw cotton, tea, oil seeds, wood oils, fertilizers, wools, hides and skins, and some metals. The oil seeds furnish the largest single export product after raw silk. Antimony and tin are the principal metal products.

The import needs in existing circumstances are kerosene, cotton fabrics of all kinds, some woolens, drugs and medicines, soaps, electrical apparatus, and railway material. The latter, along with machinery, is the potential import of the future rather than of the present.

Foreign trade is surprisingly small in volume in view of the productive resources of the country and the vast population to be supplied. In the year before the Great War it was approximately only half a billion dollars. In the closing year of the war the total was about the same. The exports in 1914 were 345,281,000 Haikwan taels; the imports 557,109,000 taels. The fluctuating value of the tael accounts for the conflicting figures relating to China's commerce in different years. The phenomenal increase in the value of silver during the war added to the difficulty in making statistical comparisons.

In 1917 the high-water mark of the trade was reached, when it amounted in round numbers to a billion dollars. Yet this meant purchases abroad of less than two dollars per person, and sales abroad in lesser proportion. Australia, with a population of five million, buys and sells as much as China, with three hundred and fifty million inhabitants. Its foreign trade equals three quarters of a billion dollars which is fully the average of China in ordinary years.

The trade of the United States with China and her three hundred and fifty million consumers is worth no more than one-half the trade with Chile, which has four million consumers. In ten years it showed no real growth, although a somewhat larger volume of China's products was absorbed. The exports from the United States in 1907 were approximately $25,000,000, and in 1916, with the inflated war values, they were also $25,000,000. There was an actual falling off in quantities. Cotton goods, kerosene, sewing machines, and similar articles form the bulk of these exports. Against these are principally the imports of raw silk.

A balance in favor of China is not a discouraging factor. What is discouraging is the small volume and value of the total trade. Yet relatively speaking, it is no more discouraging for the United States than for other countries. Great Britain's total trade, notwithstanding she has been long in the Orient and has made heavy investments in Chinese business, is relatively not larger. In the year before the war it was a fraction under a hundred and ninety-two million taels. There was some decrease in China's total trade on account of the war, but it was not depressing, for it amounted to less than one hundred and fifty million taels.

Since the total foreign commerce of China with all the world is hardly more, for example, than that of Cuba with all the world, why should China fill so large a space in all discussions of international commerce? The answer is in the potential trade that will follow the development of the latent resources. It is this which interests the United States as legitimately as the benevolent and unselfish attitude which it has always maintained toward China and the sentimental considerations which have been the governing characteristic of its foreign policy in everything that relates to China and the Chinese people.

It is, then, the future trade of China that all the great nations have in mind when they treat of the Chinese problem. It is a simple matter to say that an increase of a yard of cotton for each person in China would add visibly to the value of cotton fabrics all over the world. An increase of one dollar per person would mean, in the ordinary way of reckoning, an enhancement of half a billion dollars in the foreign commerce of China, for, if the imports were increased $350,000,000, there would be at least an increase of $150,000,000 in the exports, since China would have to add to her exports in order to be able to buy.

China's economic future depends on the exploitation of her coal- and iron-mines and the development of transportation systems to utilize her raw resources. This industrial development is the prospective basis of a vast commerce. It rests, however, on the so-called foreign concessions, and it raises the whole question of not simply the morality, but the utility, of those concessions. It also raises the question of the economic overlordship of other countries.

This, of course, means Japan, and Japan as she came out of the peace conference with the secret treaties no longer secret and with the great-war Powers of the Western world — that is, Great Britain, the United States, and France, as her sponsor. It brings up the whole problem of the international status of China and of the future commerce of the Pacific. It also serves to place in relief the opinion of a celebrated French economist delivered shortly after the conclusion of the Sino-Japanese War in describing the awakening of Asia. He boldly declared that this was in reality the war of Western science against Chinese routine, the war of progress against immobility.[1] In essence this to-day is the justification which is urged by Japan in pressing her claims for the economic control of China. A rapid review of the diplomatic developments is necessary in order to understand the status at the end of the Great War and the outlook under the peace settlement.

John Hay as secretary of state proclaimed the open-door policy in 1899. This application of American policy in the Orient after twenty years has faded into a vague memory in most minds. It is therefore timely to recall the circumstances in which the United States acted. In September and during the following months Secretary Hay addressed to the governments of Great Britain, Germany, and Russia a communication concerning China. Communications identical in substance also were addressed to the governments of France, Italy, and Japan.

[1] Pierre Leroy Beaulieu, "La Renovation de Asie": Paris, 1902.

"American commercial rights" was the term used by the Government of the United States in defining the open-door policy. It was a convenient form for notifying other governments that the United States was aware of their designs to seize territory and partition the Chinese Empire among themselves, and that Washington was opposed to their purpose of extending their spheres of influence by denying China the sovereignty of her own territory. The substance of the declaration as embodied in the note to Japan was that this country was

> animated with a sincere desire to insure to the commerce and industry of the United States and of all other nations perfect equality of treatment within the limits of the Chinese Empire for their trade and navigation, especially within the so-called spheres of influence or interest claimed by certain European powers in China.[1]

The next chapter in the declaration of American policy with reference to the far East was broader than the open-door statement of Secretary Hay. It recognized the growing influence of Japan in the far East and also the interest of the United States in the Pacific. It came nine years after the Hay exchange of notes. It was in the form of an exchange of notes between Elihu Root, secretary of state, and Baron Takahira, the Japanese Ambassador at Washington in November, 1908. Its substance was that the wish of the two governments was to encourage the free and peaceful development of their commerce on the Pacific Ocean, to maintain the *status quo* in that region, and to defend the principle of equal opportunity for commerce and industry in China and to preserve the common interest of all powers — by sup-

[1] See Appendix C. for text.

porting by all pacific means at their disposal the independence and integrity of China and the principle of equal opportunity for all nations in that empire.[1]

Nine years passed, and a third declaration emanated from the Department of State. The circumstances were different from those in which previous declarations had been made. Japan had entered the war as an ally of Great Britain. She had wrested Shan-tung from Germany. The United States had become a belligerent. It was recognized that the situation in the far East was in the hands of Japan. She wanted specific recognition by the United States of her dominant position in Asia. She got it in what was known as the Lansing-Ishii Agreement, an exchange of notes between the American Secretary of State and the Japanese Ambassador in Washington. This was promulgated in November, 1917. It unequivocally recognized that territorial propinquity creates special relations between countries and that consequently Japan has special interests in China.[1]

No previous national administration in the United States had ventured to make this specific statement. While the agreement pledged Japan to respect China's territorial integrity, by inference at least, it likewise placed the economic future of China in Japan's hands, and made her the dictator of the program of economic readjustment and social evolution which China in a sporadic way had attempted on her own account.

China, while like a derelict at sea unable to chart a course, nevertheless was not willing to be ignored in matters affecting her own sovereignty and independence. The Peking government gave publicity to a note in which, following the language of the Lansing-Ishii agree-

[1] See Appendix C.

ment, "in order to avoid misunderstanding," it made known that views of the government were these:

> The principle adopted by the Chinese government towards the friendly nations has always been one of justice and equality; and consequently the rights enjoyed by the friendly nations derived from the treaties have been consistently respected, and so even with the special relations between the countries created by the fact of territorial contiguity, it is only in so far as they have been provided for in her existing treaties. Hereafter, the Chinese government will still adhere to the principle hitherto adopted, and hereby it is again declared that the Chinese government will not allow herself to be bound by any agreement entered into by other nations.

In the press despatches from Washington at the time it was stated that the State Department, while recognizing that there might be some tone of regret that China was not made a part of the proceedings, refused to consider the note as a protest. This, it was complacently stated, was so minor a consideration that further explanation to China was not projected. The inspired press statement said also that there was indication that the State Department considered the Chinese note such an acceptance of the principle of national rights and neighborly interest as the United States would like to see recognized throughout the world.

China, from subsequent events at the Paris peace conference, apparently did not take this view of national rights and neighborly interest.

The Lansing-Ishii Agreement was interpreted by authoritative Japanese spokesmen as an invitation for the United States to become the business partner of Japan. At that time a special Japanese finance commission was in the United States. Baron Megata, its head, in a newspaper interview said that China, with her huge latent resources, offered a very inviting field for development, and he hoped that when the time seemed ripe plans might be formulated for joint participation of the financial and industrial interests of the United States and Japan in the development of her resources. This view was also given expression in other authoritative quarters.

Tentatives toward this financial rapprochement were made. Plans were put forward which were purely of private origin. Others seemed to have the approval of the Japanese Government. The basis of all of them was partnership in developing or exploiting China. A Chinese cartoonist with a sense of Western humor presented one view of the situation. He drew a picture of a cow. The United States was feeding the animal; Japan was milking the cow.

In financial and diplomatic circles, in view of these suggestions of partnership, some study was made of Japan's resources. The question in the background was how far Japan might be able to carry forward the development of China with her own capital and how far she might contribute to an international partnership. The wealth of Japan at the beginning of hostilities was estimated at $18,500,000,000.[1] This would be about $363 per person. The war gains of Japan may have brought her total national wealth up to $20,000,000,000. It is not enough to place her on an equality

[1] This is characterized by a leading authority — Prof. Stanley K. Hornbeck, "Contemporary Politics in the East," New York, 1916 — as a liberal estimate. Dr. J. C. Stamp of the Royal Statistical Society gave $12,000,000,000 as figures which might be more than 40 per cent inaccurate.

with the United States in an international financial partnership.

Months after the Lansing-Ishii Agreement, President Wilson's administration reversed its position on loans by American bankers to China, but there was no specific indication that they were expected to act in concert with Japanese financiers. Separate action, however, apparently was not contemplated, because at the Paris conference the plan of President Taft's administration for helping to finance China was indorsed by the formation of the so-called consortium.[1] Under this proposed arrangement Japan would participate in the loans to China just as she was to participate in the former loan. She would be no more a partner of the United States than of England and France.

These international loans, if made, unquestionably mean a marked increase in the foreign trade of China. They also raise some pointed questions. Will they further rivet China's economic chains by the securities they exact in the way of appropriating the revenues, or will they start an irresistible movement for economic independence? China now is an international debtor, with foreign control of her maritime customs and salt tax. Revenues also are pledged as security for the Boxer Indemnity, which need not be paid in full until the end of 1940.

The extra-territorial jurisdiction of foreign powers over the tariff is similar to that which obtained in Japan until that power asserted her own sovereignty and secured the abrogation of the treaties. Previous to the Great War, the foreign nations had shown a willingness to assist China in obtaining tariff independence.

[1] See Chapter XX.

The Shanghai International Commission in 1902 had provided for an effective five per cent. ad valorem system changed to specific duties. The Anglo-Chinese Commercial Treaty of later date, in return for China's abolition of the likin and other internal transit duties, had agreed to an increase of the customs tariff twelve and a half per cent. This treaty was not ratified. During the Great War further efforts were made for a tariff adjustment, but China's inability to reform the likin taxes stood in the way. It may stand in the way for years to come, yet some day Chinese nationality may assert itself, and tariff autonomy be insisted on. The question then will arise, What will Japan do? Already she has built up her own industries under a protective tariff. China's resources that have been conceded to her are contributing to these industries. Will Japan then consent to a policy which will result in a Chinese home market? That is one of the grave questions of the future.

The United States is interested in stable and orderly government in China. It is interested in all measures for her to strengthen herself as a really independent nation. It is interested in her fiscal and economic independence as a means of national development that will promote trade. Should China follow the example of Japan and move to free herself from the dependence on other nations in fiscal policies, the United States would be bound to adopt the same liberal course that it showed toward Japan. The acid test would be for Japan and perhaps for Great Britain, but not for United States. If north and south China are able to agree, if nationalistic sentiment develops that will unify them, and, following the assertion of territorial sovereignty, demands economic sovereignty, the United States will be in the position of a large foreign investor interested in the development of the riches of the country. In the past the United States has been the disinterested friend of China. Its disinterestedness has not been fully effective. As an interested friend, its influence should be greater.

CHAPTER XX

INVESTMENTS ABROAD

Trade that follows the export of capital — Fundamental changes as a consequence of the war — Review of practice in the past — Extra-territorial character of branch factories — State Department formula regarding loans and development enterprises — Popular prejudice against claims — Experiences in Spanish-American countries — Lack of continuous national policy — The Chinese incident — President Wilson's reversal — Principle of the international consortium — The world as the field of American investments.

THE new era is essentially the era of the trade that follows foreign investments. The position of the United States as a creditor nation is reinforced by the conditions calling for the export of capital. Primarily it is a situation to be met by the bankers. The flotation and safeguarding of foreign securities is peculiarly their function, but these securities rest on the foreign trade of the United States.

Much of the discussion in this volume has been in regard to the ordinary exchange of manufactured articles and natural products without regard to the business that is created by investments in the foreign countries, but in the background there always has been the broader subject. Even had world peace instead of world war been the condition in 1914 and afterward, the foreign trade resulting from investments abroad would have occupied a leading place in American trade policy. The desirability of encouraging investments abroad as a means of promoting domestic prosperity through foreign trade was already receiving attention.

Following the Great War, the significant circumstance is that the United States Government, by war loans, has become a creditor of certain governments, and has invested in their solvency. It therefore should be in a sympathetic frame of mind toward its own nationals who may make investments abroad, either through private loans to foreign governments, in the securities of foreign industrial corporations, in development enterprises carried on by the subjects of foreign governments, or in similar enterprises carried on by themselves. The conditions in devastated Europe, in China, and in South America will be different, but the principle will be the same.

Since the subject of future investments abroad thus becomes one of present interest, it is desirable to examine briefly what has been their nature in the past, and what has been the policy of the United States in regard to them.

One of the earliest forms of American investments abroad, particularly in Europe, was in branch factories. A sharp line of distinction was drawn between the different classes of these factories. Large manufacturers and importers of certain goods, chiefly wearing apparel, such as hosiery, silks, and laces, in some instances bought the entire output of foreign industries in order to supply their customers. Usually, however, they found it more convenient to own the factories outright. While the capital thus invested was American capital, it was not so employed as to advantage American labor, or American producers through the purchase of raw material.

Another class of branch factories ceased to be branches and became nationalized foreign industries. In many cases of this kind the patent laws of different countries made it necessary; but usually there was wider field, and parent companies parted not only with their patents, but with all interest except the name. This, in particular, was true of electrical manufacturing enterprises and of sewing-machine and similar companies that established themselves in Europe. They were foreign enterprises controlled by the nationals or subjects of foreign governments, sometimes under an American name.

A third form was the establishment of industrial plants that either consumed semi-raw material or required to be constantly renewed by the supply of parts from the United States. Usually these were undertaken in pursuance of the national policies of other countries to secure the development of domestic industries. Manufactures of agricultural machinery are the most notable examples of this class. They have been established on an extensive scale in Canada, Russia, Germany, and France.

All enterprises of extra-territorial character become subject to the municipal law of the nations in which they are established. Yet a considerable volume of correspondence constantly goes on with the Department of State in which companies domiciled in foreign countries assume that they are entitled to the full rights of American companies. The department, sometimes by a friendly diplomatic representation, is able to secure mitigation of legal hardships, but it never assumes to relieve these enterprises from the operation of the laws of the country in which they are domiciled.

The general policy of the Government in relation to extra-territorial factories was set forth in a circular letter from the Department of State in 1910 to American diplomatic and consular officers. Secretary Knox in this circular drew a distinction between expatriation in business enterprises and the citizenship of the person engaged in them. The doctrine was laid down that extraterritorial factories benefited foreign rather than American labor, and were likely to compete in the country where they were established, and perhaps in neighboring countries, with the output of similar factories in the United States.

Specific application of the principle was made to American manufacturers who moved all or part of their plants to Canada. This class, it was held, were not entitled to the assistance of the Government of the United States. But the department recognized that there were circumstances which might justify the extension of the assistance of the Government to extra-territorial factories, as where an established manufacturing enterprise in the United States that exported its products to foreign markets might find it expedient to meet competitive conditions by establishing a branch there, thus preserving and fostering the main export business.

While the official assumption was that American enterprises that transferred themselves to a foreign country thereby lessened the opportunities for the employment of American labor, nevertheless there was also recognition that some of them afforded a wider market for American products through the installation of the industrial plants, and through the supply of semi-finished products which followed. In the future, under the changed world conditions, the question of branch factories is likely to assume larger proportions than in the past, yet its solution offers no serious difficulties. A tolerant spirit and acquiescence in the actual circumstances, without accepting undue responsibilities, will serve to meet the situation.

The greater question of the future of investments abroad in the wider field that may be offered for the output of American industries relates principally to loans, and to capital put into development enterprises without losing their American nationality. The formula of the Department of State in regard to foreign investments of this character has not varied greatly, notwithstanding the actual change in practice following changes in national administrations.

During President Taft's administration the formula as expressed by Secretary Knox was that the department would give all proper support to legitimate and beneficial American enterprises in foreign countries. This certainly afforded no wide latitude for reckless investments, since the department itself was the judge of what constituted legitimate and beneficial enterprises and of what should constitute proper support. Under President Wilson the language of the formula was varied, but its essence was not changed. It was expressed in Secretary Lansing's letter to the Chicago bankers who made a preliminary loan of $5,000,000 to China in June, 1917:

> I have read the contract between yourselves and the republic of China with reference to a loan of $5,000,000 for a period of three years, and I have to say in reply to your oral request for a statement of the policy of the Department respecting such loans that the Department of State is always gratified to see the Republic of China receive financial assistance from the citizens of the United States, and that it is the policy of the Department, now as in the past, to give all proper diplomatic support and protection to the legitimate enterprises abroad of American citizens.

Yet formulas alone are not sufficient to meet the investment conditions of the new era.

There are perils in foreign investments. One of these is the lack of an understanding at home of their nature and of their influence on American economic policies. Capitalists make investments abroad for the same reason that they make them at home, which is for profit. In seeking profit abroad for themselves, they also promote profit for others. They take more risk than in investments at home, and they look for greater returns. This is an unalterable law of business. It has to be borne in mind when those who have put money in enterprises in other countries are held up as greedy exploiters. Though it is easy for political demagogues to denounce them and to create a prejudice against them, it is not just to make oratorical declarations encouraging Americans to seek foreign fields for their surplus capital and at the same time to discredit them at home. Either they have grounds for assuming the support of their Government, or they have not; and if they have not, few will care to adventure abroad.

Americans who invest in foreign countries have both legal rights and moral rights. Their legal rights may be circumscribed within the limits of municipal law as interpreted under the law of nations. Their moral rights are to a presumption that they and their representatives are reputable American citizens. Capitalists as a rule do not entrust their interests abroad to persons without character. The character of their representatives abroad is even more important than the character of their representatives at home, because a larger responsibility rests on those who serve them abroad. This is the general rule.

Friction in the past, where it has developed, most commonly has come from private loans to foreign governments either for national development projects or for refunding purposes, and from contracts and concessions for public improvements. Out of government obligations in the form of debts sometimes grow repudiation; out of contracts and concessions grow controversies with governments. Claims follow, and international complications sometimes result. Contrary to a common impression, the United States has had few complications of this kind, possibly for the reason that its nationals have made few foreign investments of any kind.

Spanish America has been the field of scandalous speculative loan investments by individual men, and while some money has been advanced on them, usually the borrowing country has obtained a very small amount of cash. A group of British capitalists once loaned to a corrupt executive in Honduras nominally $3,000,000, and actually advanced $1,500,000 cash. This grew by compound interest and other means until it figured in the report of the British association, known as the Foreign Bondholder's Corporation, as $100,000,000, and it still figures at that sum in some of the international compilations of Latin-American debts. This was an extreme case, yet it was typical of many others.

The United States Government has not looked with favor on the policy of the European governments for the forcible collection of public debts, but it never has denied them certain privileges, such as the seizure of customs and, theoretically, it has not denied the right of temporary occupation of the territory of the debtor country. Yet it also has subscribed to what is known as the Drago Doctrine. This is the twentieth-century adaptation of the Calvo Doctrine that no creditor country is entitled forcibly to collect from a debtor country. It was promulgated in 1902, when European powers were threatening Venezuela, by the eminent Argentine publicist, Dr. Luis M. Drago. As minister of foreign affairs of the Argentine Republic, he addressed a note to the Government of the United States, setting forth the principle that public debts cannot authorize armed intervention or actual occupation of the territory of American nations on the part of any European power. Secretary Hay replied, acquiescing in the general principle.

Taken with the attitude against European governments forcibly collecting debts in Spanish America, this may be accepted as the definite policy of the United States. Loans made by banking syndicates in the future financing of South America will be with the knowledge that the United States will not enforce their collection with war-ships. Nevertheless, it will not preclude diplomatic representation and the exercise of good offices where difficulties arise. But both the economic and the political prospects of the South-American countries are now so well understood that loans are not likely to be made to governments which either through instability or indifference to their obligations may raise difficulties in payment.

Pecuniary claims are a more frequent source of irritation. South-American governments, in making contracts for public improvements, for railway concessions, and similar enterprises, usually insert a stipulation that the nationals of other countries who are parties to the contract shall forego diplomatic rights of reclamation in any dispute that may arise. When controversies have arisen, both European governments and the United

States have ignored this stipulation, and have acted on the presumption that it was entered into under a species of duress and had no binding effect. This is a sore spot with all the Ibero-American countries, and at Pan-American Conferences unavailing efforts have been made to secure an agreement under which the United States would accept their principle.

On the surface a stipulation of this kind seems proper enough, and it might be said that nationals of other countries take their chances, and should abide by the consequences of their acquiescence; but if this position were rigidly ahered to, much of the material progress that South America has shown would not have been secured, and material progress there is the basis of political progress. Jurists in the more advanced Ibero-American countries, while sensitive to the implied reflection on all the republics, and while insisting on the general principle, know why neither England nor the United States has acquiesced in its rigid observance. They know that the courts of some Spanish-American republics are not free, and that in any controversy between the government and foreigners, the judicial tribunals will decide as the executive wishes. There have been instances in which the executive was complaisant toward an adverse decision, and in those cases the foreigners have obtained their rights.

The claimant, whether he be before Congress or before the executive departments in Washington, universally is looked upon as a nuisance. The justice of his claim does not mitigate this harsh judgment. Sometimes the pathos of it all, as centered in the personality of the claimant, appeals to the novelist or the dramatist, but when their art is served, they drop the subject, and the literary charm of claims falls back into the shadows. In the case of foreign claims there is less of the pathetic, perhaps, but the mere fact of the claims being against other governments than their own seems to add to the prejudice entertained against the claimants. The assumption is that some "bad" Americans are trying to rob "good" foreign governments.

A little reflection will show that the Department of State, before pressing any claim against another nation, makes a careful investigation to determine its justice. The chorus of complaints that constantly goes up, which sometimes is voiced in Congress and sometimes in newspapers, is that Washington is unwilling to see justice done to its own citizens. This simply indicates that in many instances the department has not been convinced that the claim is a proper one for it to press. Doubtless occasionally its judgment is wrong, but when a claim is pressed by Washington the American people will be safe in assuming that their Government is fully convinced of its righteousness.

The American people never have shown an unwillingness to rectify any injustice that may have been done a foreign government in pressing claims. An illustration of the manner in which the national honor has been vindicated was in the notorious Weil and the La Abra claims against Mexico. These had nothing to do with foreign investments. They were concocted so skilfully as to deceive both the American and the Mexican governments. After they had been allowed by Mexico, and the awards partially paid, it was discovered that they were fraudulent. Without hesitation, the executive department recommended that an appropriation be authorized to repay Mexico, and restitution was made by Congress.

In the case of investments in revolutionary-ridden or war-ridden Ibero-American countries, the United States never has taken unfair advantage of its position, or shown a disposition to encourage exaggerated or fraudulent claims. At the same time it has held strictly to the principles of international law governing the rights of foreigners domiciled and owning property in foreign countries. A striking example was found after the Spanish-American War. Many Americans who had owned sugar-plantations and other property in Cuba which had been damaged during the period of insurrection against Spain came forward with claims. A semi-judicial tribunal was established which adjudicated these claims, and decreed the amount to be paid by the Republic of Cuba as the sovereign successor of Spain. The entire work was concluded within a few years, and the awards were surprisingly small, the total being approximately $6,000,000.

These instances might be kept in mind by those v are accustomed to decry their fellow-Americans have occasion to press claims against other cou There can be no expansion of American investm foreign countries without the possibility of sc plications in individual cases, but forethoug investing capitalists will reduce these possil minimum, and the exercise of firm, but jud macy will enable the few that do arise to l a minimum of diplomatic friction.

The lack of a continuous policy in f another of the perils of investme changes in national administrations, most frequently, though not always, due to shifts in political power, have caused bewildering changes in foreign policies. When vice-President Arthur succeeded Garfield, the policy of the Garfield administration with reference to the Pacific coast of South America and the war between Chile and Peru was abruptly reversed, and much that had been done was repudiated. The United States, after a third of a century, has not fully recovered from the effects of that course. When Grover Cleveland first assumed office as President, he withdrew various treaties affecting canal relations and trade relations with Central America and the West Indies. They foreshadowed a policy of expansion and control with which he was not in sympathy. Yet after thirty years another President of the same political faith became the instrument of enforcing those policies.

The action of President Wilson in abruptly annulling the six-power loan in China in 1913, and thus preventing the coöperation of American banking syndicates with European syndicates in developing China's resources, was an example of the lack of a continuous policy. His objections to the participation of American bankers in the Chinese loan were in substance that it infringed the sovereignty of China and might ultimately require forcible intervention in the affairs of the country. He said:

> The conditions of the loan seem to touch very nearly the Administrative independence of China itself, and this Administration does not feel that it ought even by implication to be a party to those conditions. The responsibility on its part which would be implied in requesting the bankers to negotiate the loan might conceivably go the length in some unhappy contingency of forcible interference in the financial and even the political affairs of that great Oriental State

just now awakening to a consciousness of its power and its obligation to its people.

Five years and the Great War brought a change. In July, 1918, publicity was given to the approval by the national administration of proposed loans to China by American bankers. It was understood that the amount would be $50,000,000. The new policy was declared to be the result of war conditions. President Taft's administration had acted under peace conditions, with the declared purpose of putting the United States in a stronger position to defend China's integrity. "The United States had forced its way into the Chinese loan market in order, by means of investments, to strengthen the position of the Government for the defense of the open-door policy and China's integrity." Thus wrote Professor Stanley Hornbeck, an authority on the diplomacy of the far East.

The official announcement as made by the Department of State took pains to emphasize the war nature of the Government's action, so that China would be better able to defend itself against enemy forces approaching its borders. The text of the official statement is of interest. It follows:

> China declared war against Germany very largely because of the action of the United States. Therefore this Government has felt a special interest in the desire of China so to equip herself as to be of more specific assistance in the war against the Central Powers.
>
> Until the present time the engagements of the United States in preparing to exert effectively its strength in the European theatre of war has operated to prevent specific constructive steps to help China realize her desires. Recently, however, this Government felt that, because of the approach to Chinese territory of the scenes of disorder, a

special effort should be made to place proper means at the disposal of China. Consequently a number of American bankers, who had been interested in the past in making loans to China and who had had experience in the Orient, were called to Washington and asked to become interested in the matter. The bankers responded very promptly and an agreement has been reached between them and the Department of State which has the following salient features:

First—The formation of a group of American bankers to make a loan or loans and to consist of representatives from different parts of the country.

Second—An assurance on the part of the bankers that they will coöperate with the Government and follow the policies outlined by the Department of State.

Third—Submission of the names of the banks who will compose the group for approval by the Department of State.

Fourth—Submission of the terms and conditions of any loan or loans for approval by the Department of State.

Fifth—Assurances that, if the terms and conditions of the loan are accepted by this Government and by the Government to which the loan is made, in order to encourage and facilitate the free intercourse between American citizens and foreign States which is mutually advantageous, the Government will be willing to aid in every way possible and to make prompt and vigorous representations and to take every possible step to insure the execution of equitable contracts made in good faith by its citizens in foreign lands.

It is hoped that the American group will be associated with bankers of Great Britain, Japan, and France. Negotiations are now in progress between the Government of the United States and those Governments which it is hoped will result in their coöperation and in the participation by the bankers of those countries in equal parts in any loan which may be made.

Besides the war-like conditions which confront China on her northern and western borders, there is a further incentive to coöperate with all these Governments because the war has created a community of interest between them and their citizens and those of other Governments, and has broken down barriers which once have existed and has made easier the intercourse between them. It is hoped that if the project succeeds it will serve as an agency through which this community of interest and the consequent expansion of our mutual interests abroad may be adequately and properly expressed.

In the months that followed this official announcement apparently not much progress was made in the negotiations, but the Department of State was following a definite course which bore fruit at the Peace Conference. Following the publication of the covenant of the League of Nations and the terms of the Peace Treaty, came the announcement from Paris that the United States had sanctioned an international consortium for combining the interests of American, British, French, and Japanese groups in China and for undertaking joint financial administrative and industrial loans to the Chinese Government. This was in May.

In the Associated Press despatch from Paris it was stated that the American Government had taken the initiative in the movement in a note to the three other powers, setting forth the principles on which it was proposed to establish the consortium. The consortium may be described as international coöperation, or as international participation in the future of China. In whatever manner the details may be worked out, it bears on the attitude of the United States Government toward all foreign investments by its nationals. The basis of all loans and investments abroad is the development of the resources of the countries in which they are made. This means the supply of materials which become factors in foreign trade.

Under the new conditions the responsibility of bankers, capitalists, and industrialists to the countries in which the investments are made becomes responsibility to their own government, because it assumes responsibility for them. The conclusion which may be drawn regarding the relation of the Government of the United States to the investment of its nationals abroad is that it will be one of guidance and of guardianship, but not of beneficiary or of partnership. More important is the indication of a continuous and consistent policy. As a consequence of the action at Paris, the trade that follows investments abroad gains definite recognition. The whole world is the field for American investments.

CHAPTER XXI

THE AMERICAN BUSINESS MAN

Relation to the Government changed by the war — Causes of aloofness — Distrust of Bureaucracy — Why he does not come to Congress — Lawyer politicians equally ignorant of international questions — Some examples of business ignorance — Sporadic foreign trade forays — Applying the remedy — Success of the big concerns — Coördination with the Government — Coöperation in selling abroad — Educational factors — World commerce as the business of the United States.

THE American business man finds himself a world business man. As a consequence of the Great War, his geographical knowledge has been visibly increased. International affairs have become an every-day topic to him. Foreign trade in its general outlines has become almost as familiar to him as domestic trade. There has been an educational evolution on this subject.

He finds that he is in sympathetic fellowship with his Government. The sensation is both strange and satisfying. Whether he is engaged in the business of manufacturing, of farming, of merchandizing, of financing, or of transportation, he feels himself in a new relation. In the past his attitude toward public affairs and especially toward the national government has been one of aloofness, often merging into positive antagonism. He could not comprehend bureaucracy. It was maddening when an urgent matter was laid before one of the executive departments in Washington to get an official answer couched in formal language, saying that the subject would receive due consideration.

The formal style of communication annoys the business man when it does not awe him. He cannot understand why he is addressed stiffly as "Sir," and why some cabinet officer, in acknowledging a letter, finds it necessary to assure him, the business man, that he, the cabinet officer, has the honor to be "his obedient servant." He prefers something like "Yours truly" to place him on a more familiar footing. But these circumstances are not of overwhelming consequence. Governmental business can not be carried on with the same directness as private business, though the methods may be simplified.

The business man customarily is a member of some organization which relates to his own form of industry or trade. He may also belong to a chamber of commerce, which represents the industrial and commercial activities of the community as a whole. The capable secretary of either or of both associations prepares resolutions, for which he votes, usually without discussion. They fairly interpret the opinions of the members or they would not be passed. Yet the mental attitude of the individual man is one of lack of real interest, a feeling that his voice is inarticulate, because the executive, or Congress, pays no attention to business men. Not infrequently this feeling is justified because it is disclosed that the only recommendations wanted are those which approve a policy already determined on. Where they fail to do this, they are ignored.

Commonplace moralizing about the indifference of business men to national affairs, and their failure to make their voice articulate by becoming members of Congress, sheds little light on the causes of the customary aloofness. The real explanation is that the business man in the United States is the victim of his own success. Concentration in any line of endeavor is the indispensable requisite of success. But concentration on one form of industrial or commercial activity eliminates a wider interest and a wider knowledge. Hence it happens that when the successful business man responds to a popular demand or to the exigencies of a local political machine, and perhaps to some stirrings of ambition within himself for a broader field than his business offers, and comes to Congress, he rarely stays.

The business man in either branch of Congress always has an attentive audience when he speaks on the subject with which he has become familiar through actual experience. The ablest lawyers in the Senate one day were discussing an intricate question relating to the mining laws. They confuted each other with great ability, and the Senate itself, which looked to them for light, was in a hopeless maze. A senator from a mining State, whose bonanza strike had been responsible for his coming to the Senate, twisted uneasily in his chair, but did not venture to say a word. He had not the gift of speech to begin with, and had he possessed it, he would have been overawed by the company in which he found himself.

When the lawyer-senators were hard at each other disputing law and facts, and getting into a bad temper, one of them happened to glance at his miner colleague. Almost unconsciously he appealed to the latter on some question of fact where a little genuine information was worth a vast quantity of legal opinion. The diffident mining senator answered the question, and in doing so got to his feet. Another question was asked him, and he answered that, and then, without premeditation and without consciousness that he was addressing the most august law-making body in the world, he talked for half an hour on "miners' law," the pioneer conditions under which it sprang into existence, the situations it solved, and the statute laws which had flowed from it.

The confused Senate soon perceived a logical chain of reasoning based on actual knowledge. When he was done, both the controversial senators made their acknowledgments, and admitted that they had been talking about something concerning which they knew nothing. The Senate acted on the information given by the miner-senator.

This illustration could be repeated in numerous other instances where senators and representatives who come within the category of business men and not lawyers have had the opportunity to enlighten their colleagues on subjects with which from experience they were familiar. The trouble usually is that there are so few of these matters, or the business man thinks there are. His view is the concentric one. He is looking at the subject from the particular angle in which his business has educated him.

Where there is a business man whose business is such that it permits him to go into politics and get elected to Congress before he is forty years of age and to continue there, he exercises a marked influence on legislation. As a rule, lawyers who enter Congress after forty are no more successful than are business men who become members after reaching that age. The House of Representatives is the most democratic parliamentary body in the world, and the Senate, despite tradition, is equally democratic. The man who knows his subject, who has anything in him, cannot be held back by artificial barriers.

While it is desirable that there should be more business men in Congress, yet it must be recognized that the driving nature of American commerce and industry does not encourage the expectation that there will be many who can mix in public affairs and become congressmen before they are forty. Consequently, the country will continue to look to the lawyer-politicians for legislation, and the most that can be expected is that business men will exercise their influence more directly and with better organization than has been customary.

Law-making — that is, constructive law-making — is complicated work, and requires a knowledge of many subjects and their relation one to another. It calls for a long apprenticeship. The pages of the Congressional Directory are speaking testimony to the nature of this apprenticeship. The biographies of the individual members are records of service as state's attorneys or prosecuting attorneys, as county judges and circuit judges, and as representatives and senators in the legislatures of the States. This is the natural progression toward a seat in Congress, and it is another explanation of why the lawyer-politicians always will be in the numerical preponderance. They get to Congress after constant service in other positions in which knowledge of the law and its application are constantly put into practice.

On one subject the business man in Congress, if he chooses to assert himself, is on a full equality with the lawyer-politicians who are his colleagues. This is foreign affairs. Students of the congressional system and executive officials in Washington who have to bear largely the responsibility of conducting the relations of the United States with other governments have commented discouragingly on the ignorance and indifference of members of Congress to the relations of the United States with foreign countries.

It is not due to lack of patriotism, for ordinarily all that the congressmen want to know is what the Government considers the patriotic thing to be done, and when that is known, they will do their part. But it is difficult to persuade them to study and learn something about the circumstances which govern the policies of other countries. There is a simple, if not a satisfying, reason for this ignorance. It is the lack of interest on the part of their home people in anything outside of the immediate environment. The post-office and other patronage, the appropriation for a public building, the amount of the district's share in the River and Harbor Bill, are of much more consequence. For that reason the representative gives his time to them.

It is doubtful whether at any time the House of Representatives, out of more than four hundred members, has a score who are interested in foreign affairs, and who take the pains to inform themselves so as to act intelligently on international questions. The Senate, partly because of its share in the treaty-making power, has a larger proportion than the House, but it is nothing to boast of. There are few senators who would seek a place on the Foreign Relations Committee in preference to a place on the Committee on Commerce which controls the river and harbor allotment, on Appropriations, or even on Public Buildings.

The Spanish-American War enlarged the horizon of foreign relations, but the effect was not noticeably broadening in the education of Congress as a body. The Great War has done more, because it is so far vaster in its causes and in its consequences; but even here it is not certain that there will be a marked increase in the number of senators and representatives who care to inform themselves fully, so as to understand world affairs in their bearing on the foreign relations of the United States.

The business man who is interested in foreign trade, by that very fact should be better fitted to form a judgment on international policies than the congressman whose greater interest is in the local affairs of his district. Yet in the past he has not measured up to the standard of knowledge which might be expected of him either regarding the proper functions of his own Government in connection with trade or the requirements of foreign markets. The antagonistic attitude of one class of business men to their own Government and their misunderstanding of its functions in extending their business abroad affords some amusing illustrations.

It was the manufacturer of a highly protected commodity who, on receiving a report from his European agent that Sweden was about to impose a tariff on his product for the purpose of encouraging its manufacture, wrote an urgent letter to the Department of State, demanding that immediate action be taken to prevent Sweden from adopting this tariff duty. It was a manufacturer of wire products who had established a branch factory in one of the South American countries, because the domestic policy was to encourage the manufacture there rather than importation, who wrote an indignant remonstrance to the department for not protesting when that country proposed to change its policy and lower the duty on the article in question. His branch factory was fully established and able to meet competition, but he could not see why the Government of the United States should be willing that home manufacturers should take advantage of this opportunity for trade expansion. It was an association of manufacturers which formally demanded that the Government of the United States "compel" one of the provinces of Canada to repeal its regulation for a license tax, notwithstanding that the tax was required not only from commercial travelers from all countries without discrimination, but from the other provinces of the dominion as well.

These instances of the lack of comprehension of the proper functions of the Government in relation to trade intercourse could be multiplied, but they are of little importance in comparison with the discouraging chapter of foreign-trade forays. How recent is the series of indignant reports from American consuls and from special agents of the Department of Commerce which poured into Washington on the deficiencies of the American manufacturers who were seeking business abroad! From the settled commercial centers of Europe, whose practices had been fixed for generations, they came. From the much sought-after South American market they flowed in endless tide. From China and Japan and remoter regions of the world where there were opportunities to sell American goods they drifted in.

They were all of the same order. Innumerable instances of bad packing, with the inevitable indignation of consignees and imperative demands for damages; failure to live up to samples, with the consequent disappointment of the importers; deficient postage; absolute indifference to specifications made by the importers with a view to meeting local requirements; refusal to fulfil orders which had been sought after, but later disregarded because, when the order was received, the home market had quickened and the articles could be sold at greater profit; dumping of second-rate commodities, often an accumulated surplus, and oftener inferior stock which had to be got rid of, and which it was considered fair gain to unload on the hapless foreigner; failure to accept repeat orders when an importer had created a market for the American goods because renewed industrial activity had insured a better profit at home; demands for cash with order when specific agreement had been made for credit; indifference to drafts previously authorized, and frequently insulting reflections on the financial ability and integrity of the consignee! This was the chapter.

There were several causes for this series of consular letters and reports. In the first place, the American manufacturer who was guilty of these practices still looked on foreign orders as something sporadic and spasmodic, and only to be sought in order to dispose of surplus stock. In other words, the foreign field was viewed purely as a dumping-ground for temporary purposes.

Ignorance of packing methods was simply inexcusable. Indifference to the trade requirements of other markets was partly due to American self-sufficiency. It assumed that what was suitable to the domestic consumer should suit the foreign consumer. There was also manifest something of the inherent contempt of the provincial American for all things foreign. Unfortunately, there was not always the highest standard of commercial integrity. Sharp practices, which were condoned at home, it was assumed would be condoned abroad.

These criticisms happily related only to certain persons and to small concerns. They never were true of the half score of great corporations which went into the foreign field with the purpose of cultivating it as a permanent market, and which still do the bulk of the export business of the United States. These big companies did not pack their goods carelessly; they did not abruptly and without explanation fail to fill orders which they had sought; they did not merely dump their surplus, or unload on the foreigner second-hand and unsalable goods. They sought to meet the local-trade requirements. They studied credit conditions in advance, and once having secured customers, they kept them. When the active period at home succeeded the dull times, and the domestic demand exceeded the capacity, nevertheless they continued to fill their foreign orders.

It is the big manufacturing companies which have redeemed the American name abroad. A single firm or person, by sharp practice or dishonorable methods, and by failure to keep engagements made, provokes an outcry that causes the reliable firms to be overlooked temporarily. It is simply the case of evil receiving publicity where good is accepted as a matter of course. But though the example of the big companies seems to be ignored, this is not really so. Their correct methods and their close attention to keeping scrupulously their foreign trade engagements have laid the deep and solid foundation on which the whole structure of American trade abroad may be built.

The individual sinner through persistent reiteration of his sins and of the need of reforming his methods may be brought to repentance. The educational campaign against bad packing, dumping inferior goods, failure to live up to agreements, cancellation of orders accepted, and the long train of transgressions which justly were laid to the door of many American manufacturers is bearing fruit. A higher sense of responsibility in dealing with foreign customers is now shown. Where there are shirkers and slackers, the only remedy is to crowd them out of foreign trade entirely.

For the business man who for the first time is seeking to sell his goods abroad his aloofness in domestic matters becomes one of apprehension in foreign affairs. He is literally bewildered, and venturing into untried fields he shows his bewilderment. He feels that he does know something about home concerns, but when he is adrift in the big world he is helpless.

This sense of isolation is to-day the greatest drawback to the American business man who is seeking to obtain a share of foreign trade. He lacks the psychological sense to place himself in the midst of other and distant surroundings. The failure to comprehend foreign customs and requirements is due to this lack of insight. The business man does not realize that there is another world of trade in which the point of view is entirely different from his own. The Government, by its numerous agencies, has tried and is trying to give the American business man this sense of the foreign point of view. It seeks to take him out of his own environment and set him down in an entirely different one thousand of miles away, to coördinate its resources with his enterprise.

The war taught some valuable lessons regarding the coördination of the business man's energies with those of the Government. They furnish a useful avenue of approach to the coördination of government agencies in promoting foreign trade. Few business men realize the degree to which the Department of State as the medium of foreign intercourse has been molded to advance their interests. They have some knowledge of the activities of the Department of Commerce, because the name appeals to them. It is barely a decade since an appropriation of $50,000 was secured by President Roosevelt's administration for developing foreign trade through that instrumentality. The pioneer work under that modest appropriation caused a broad foundation to be laid, and a solid one, too, so that now more than $1,000,000 is annually devoted to this purpose, and every part of the world is scoured by experts able to give technical as well as general information. The Federal Trade Commission has added foreign markets to its functions, and the Tariff Commission likewise takes excursions into this inviting field.

There is much overlapping and duplication in this work, but its value, while somewhat obscured by this overlapping, is undeniable. What is needed is a clearing-house to digest all the information gathered and make it accessible to the ordinary man. This suggestion might be looked upon as an incitement to create another board, with all the appurtenant machinery, but that is not the purpose. The clearing-house should be composed of existing bureau officials. Yet, despite the duplication, and notwithstanding the absence of proper digestive facilities, the value of the work done by the Government should be appreciated, and business men should take advantage of it and coördinate their energies with its activities.

There is the further opportunity for coöperation by manufacturers and exporters among themselves. No one should minimize the signal service which the great exporting corporations have done for American commerce in their perfectly legitimate efforts to extend their own business. It is they who have in reality created markets for American goods. They are deeply interested in all questions of general policy relating to foreign trade, and they are not so strong that the government agencies can be neglected by them. But from the large capital at their command, and from the nature of corporations, they are fairly able to take care of themselves. In any growth of trade in the future they will have their due proportion, but it is the small manufacturers who, taken as a body, must be the principal instrumentalities of enlarged markets.

Twenty thousand small manufacturers selling their goods abroad add enormously to the total sales, yet the amount for each individual firm or company may relatively be so small that it is impossible for it to develop an export business for itself, and the individual members are timid about venturing by themselves. The remedy is in association, in coöperation with their fellows. Their feeling of isolation can be overcome by associating themselves with other lonesome business men who also want to do business abroad. A feeling of confidence thus may be created, and the foreign field may cease to be one to be desired, but not to be approached through fear of rebuffs. What the situation requires is that the smaller manufacturers be provided with means for exporting a certain portion of their products. They have the goods, and the problem is to find the market. This can be done by coöperation.

Henceforth world commerce is the business of the United States. This country is in world politics. It cannot, if it would, keep out of world business. Yet there are definite limitations on the functions of the government. It can gather and disseminate information of value to American manufacturers and exporters in their quest for world markets. It can exercise the diplomacy of commerce in the light of changed world conditions and the delicate readjustments to meet them. It is bound to have numerous tariff adjustments and probably to negotiate an intricate network of trade treaties. These treaties will be the foundation of American trade policy whenever the American people clearly express their views on the trade that follows the war and the means the United States shall exercise in obtaining a proportionate share of it.

The promise of the new era, which will be an era of competition, is nevertheless of closer relations between the civilized nations of the world. The education of the American public in international relations as the consequence of the Great War carries with it the prospect of a wide popular education in regard to commerce with other countries. The business man has his part in this education. His first step should be to educate himself in what constitutes the essentials of foreign trade and the conditions under which it may be fostered. This done, he will be in a position to help the education of those who are not directly interested, but who have the indirect interest that comes from the effect of enlarged foreign markets on domestic prosperity.

Back of it all must be coöperation of the business men among themselves and coördination with the Government. There must be recognition that the American business character finds its strongest expression in individual enterprise and in initiative of its own. Where other governments are tending toward a larger measure of actual participation in the enterprises of their nationals, the United States should remain as the exemplar of individualism in international business. That is real democracy. It is the enduring foundation for expanding American trade in the new era of international commerce.

APPENDIX

A — RECIPROCITY AND RETALIATORY TARIFF PROVISIONS

1 — MC KINLEY ACT OF OCTOBER 1, 1890

SEC. 3. That with a view to secure reciprocal trade with countries producing the following articles, and for this purpose, on and after the first day of January eighteen hundred and ninety-two, whenever, and so often as the President shall be satisfied that the Government of any country producing and exporting sugars, molasses, coffee, tea, and hides, raw and uncured, or any of such articles, imposes duties or other exactions upon the agricultural or other products of the United States, which in view of the free introduction of such sugar, molasses, coffee, tea, and hides into the United States he may deem to be reciprocally unequal and unreasonable, he shall have the power and it shall be his duty to suspend, by proclamation to that effect, the provisions of this act relating to the free introduction of such sugar, molasses, coffee, tea, and hides, the production of such country for such time as he shall deem just, and in such case and during such suspension duties shall be levied, collected, and paid upon sugar, molasses, coffee, tea, and hides, the product of or exported from such designated country as follows, namely:

All sugars not above number thirteen Dutch standard in color shall pay duty on their polariscopic tests as follows, namely:

All sugars not above number thirteen Dutch standard in color, all tank bottoms, sirups of cane juice or of beet juice, melada, concentrated melada, concrete and concentrated molasses, testing by the polariscope not above seventy-five degrees, seven-tenths of one cent per pound; and for every addition degree or fraction of a degree shown by the polariscopic test, two hundredths of one cent per pound additional.

All sugars above number thirteen Dutch standard in color shall be classified by the Dutch standard of color, and pay duty as follows, namely: All sugar above number thirteen and not above number sixteen Dutch standard of color, one and three-eighths cents per pound.

All sugars above number sixteen and not above number twenty Dutch standard of color, one and five-eighths cents per pound.

All sugars above number twenty Dutch standard of color, two cents per pound.

Molasses testing above fifty-six degrees, four cents per gallon.

Sugar drainings and sugar sweepings shall be subject to duty either as molasses or sugar, as the case may be, according to polariscopic test.

On coffee, three cents per pound.

On tea, ten cents per pound.

Hides, raw or uncured, whether dry, salted, or pickled, Angora goatskin, raw, without the wool, unmanufactured, asses' skins, raw or unmanufactured, and skins, except sheepskins, with the wool on, one and one-half cents per pound.

2 — DINGLEY ACT OF JULY 24, 1897

SEC. 3. That for the purpose of equalizing the trade of the United States with foreign countries, and their colonies, producing and exporting to this country the following articles: Argols, or crude tartar, or wine lees, crude; brandies, or other spirits manufactured or distilled from grain or other materials; champagne and all other sparkling wines; still wines and vermuth; paintings and statuary; or any of them, the President be, and he is hereby, authorized, as soon as may be after the passage of this Act, and from time to time thereafter, to enter into negotiations with the governments of those countries exporting to the United States the above-mentioned articles, or any of them, with a view to the arrangement of commercial agreements in which reciprocal and equivalent concessions may be secured in favor of the products and manufactures of the United States; and whenever the government of any country, or colony, producing and exporting to the United States the above-mentioned articles, or any of them, shall enter into a commercial agreement with the United States, or make concessions in favor of the products, or manufactures thereof, which, in the judgment of the President, shall be reciprocal and equivalent, he shall be, and he is hereby, authorized and empowered to suspend, during the time of such agreement or concession, by proclamation to that effect, the imposition and collection of the duties mentioned in this Act, on such article or articles so exported to the United States from such country or colony, and thereupon and thereafter the duties levied, collected, and paid upon such article or articles shall be as follows, namely:

Argols, or crude tartar, or wine lees, crude, five per centum ad valorem.

Brandies, or other spirits manufactured or distilled from grain or other materials, one dollar and seventy-five cents per proof gallon.

Champagne and all other sparkling wines, in bottles containing not more than one quart and more than one pint, six dollars per dozen; containing not more than one pint each and more than one-half pint, three dollars per dozen; containing one-half pint each or less, one dollar and fifty cents per dozen; in bottles or other vessels containing more than one quart each, in addition to six dollars per dozen bottles on the quantities in excess of one quart, at the rate of one dollar and ninety cents per gallon.

Still wines, and vermuth, in casks, thirty-five cents per gallon; in bottles or jugs, per case of one dozen bottles or jugs containing each not more than one quart and more than one pint, or twenty-four bottles or jugs containing each not more than one pint, one dollar and twenty-five cents per case, and any excess beyond these quantities found in such bottles or jugs shall be subject to a duty of four cents per pint or fractional part thereof but no separate or additional duty shall be assessed upon the bottles or jugs.

Paintings in oil or water colors, pastels, pen and ink drawings, and statuary, fifteen per centum ad valorem.

The President shall have power, and it shall be his duty, whenever he shall be satisfied that any such agreement in this Section mentioned is not being fully executed by the Government with which it shall have been made, to revoke such suspension and notify such Government thereof.

And it is further provided that with a view to secure reciprocal trade with countries producing the following articles, whenever and so often as the President shall be satisfied that the Government of any country, or colony of such Government, producing and exporting directly or indirectly to the United States coffee, tea, and tonquin, tonqua, or tonka beans, and vanilla beans, or any such articles, imposes duties or other exactions upon the agricultural, manufactured, or other products of the United States, which, in view of the introduction of such coffee, tea, and tonquin, tonqua, or tonka beans, and vanilla beans, into the United States, as in this Act hereinbefore provided for, he may deem to be reciprocally unequal and unreasonable, he shall have the power and it shall be his duty to suspend, by proclamation to that effect, the provisions of this Act relating to the free introduction of such coffee, tea, and tonquin, tonqua, or tonka beans, and vanilla beans, of the products of such country or colony for such time as he shall deem just; and in such case and during such suspension duties shall be levied, collected, and paid upon coffee, tea, and tonquin, tonqua, or tonka beans, and vanilla beans, the products or exports, direct or indirect, from such designated country, as follows:

On coffee, three cents per pound.

On tea, ten cents per pound.

On tonquin, tonqua, or tonka beans, fifty cents per pound; vanilla beans, two dollars per pound; vanilla beans, commercially known as cuts, one dollar per pound.

SEC. 4. That whenever the President of the United States, by and with the advice and consent of the Senate, with a view to secure reciprocal trade with foreign countries, shall, within the period of two years from and after the passage of this Act, enter into commercial treaty or treaties with any other country or countries concerning the admission into any such country or countries of the goods, wares, and merchandise of the United States and their use and disposition therein, deemed to be for the interests of the United States, and in such treaty or treaties, in consideration of the advantages accruing to the United States therefrom shall provide for the reduction during a specified period, not exceeding five years, of the duties imposed by this Act, to the extent of not more than twenty per centum thereof, upon such goods, wares, or merchandise as may be designated therein of the country or countries with which such treaty or treaties shall be made as in this section provided for; or shall provide for the transfer during such period from the dutiable list of this Act to the free list thereof of such goods, wares, and merchandise, being the natural products of such foreign country or countries and not of the United States; or shall provide for the retention upon the free list of this Act during a specified period, not exceeding five years, of such goods, wares, and merchandise now included in said free list as may be designated therein; and when any such treaty shall have been duly ratified by the Senate and approved by Congress, and public proclamation made accordingly, then and thereafter the duties which shall be collected by the United States upon any of the designated goods, wares, and merchandise from the foreign country with which such treaty has been made shall, during the period provided for, be the duties specified and provided for in such treaty, and none other.

3 — PROPOSED KNOX AMENDMENT TO TARIFF OF 1909

Be it enacted, That section two of an act entitled "An act to provide revenue, equalize duties, and encourage the industries of the United States, and for other purposes," be, and is hereby, amended so as to read as follows:

"Sec. 2. That from and after the passage of this act, and so long thereafter as the President of the United States shall be satisfied that the government of any foreign country imposes any terms or restrictions, either in the way of tariff rates or provisions, trade or other regulations charges, exactions, or in any other manner, directly or indirectly, upon the importation into or the sale in such foreign country of any agricultural, manufactured, or other product of the

United States, which unduly discriminate against the United States or the products thereof, and that such foreign country pays no export bounty or imposes no export duty or prohibition upon the exportation of any article to the United States which unduly discriminates against the United States or the products thereof, and that such foreign country accords to the agricultural, manufactured, or other products of the United States treatment which is reciprocal and equivalent, all articles when imported into the United States, or any of its possessions (except the Philippine Islands and the islands of Guam and Tutuila), from such foreign country shall be admitted under the terms of the minimum tariff of the United States as prescribed by section one of the tariff act of August fifth, nineteen hundred and nine. Any proclamation issued by the President under the authority herein conferred and the application of the minimum or other tariff rates may, in accordance with the facts as found by the President, extend to the whole of any foreign country, or may be confined to or exclude from its effect any dependency, colony, or other particular subdivision having authority to adopt and enforce tariff legislation, or to impose restrictions or regulations, or to grant concessions upon the exportation or importation of articles which are, or may be, imported into the United States: *Provided,* That whenever the President of the United States shall be satisfied that the conditions with respect to any country, which led to the application of the minimum tariff hereinafter authorized, no longer exist, or that the government of any foreign state, by repressive, discriminatory, or confiscatory measures, either of legislation or of administration, jeopardizes, impairs, or destroys the capital of citizens of the United States legitimately invested in such foreign state; or whenever the President shall be satisfied that new discriminations are made or that relative treatment not equivalently favorable is given by or under the authority of any foreign state adversely affecting the importation into or sale in such foreign state of any product of the United States; or that the government of such foreign state, whether by law or by administrative measures, imposes exactions, regulations or limitations restrictive of or harmful or amounting to relative treatment not equivalently favorable to the commerce of the United Etates with such foreign state with respect to the imports into or exports from such state; or if a foreign state, with respect to its exports to other foreign or neutral markets, seeks by law or by administrative measures, to provide for the payment of bounties, rebates of duties or allowance upon exports in such a manner as to affect adversely the commerce of the United States established with foreign or neutral markets, he shall direct that such increased ad valorem rates of duty as he shall determine are equivalent to the injury inflicted upon American capital or commerce shall be imposed upon imports of all or such duty-free products of such foreign state as he may deem proper, provided that in no case shall the additional duty so imposed be less than five per centum nor more than twenty-five per centum ad valorem; or he may direct that the like ad valorem rates of duty shall be imposed upon importations of all such duty-free products of such foreign state as he may deem proper, or upon both dutiable and duty-free importations, or, in what the President shall be satisfied are extreme cases of new discrimination and unjust treatment of the commercial or foreign interests of citizens of the United States on the part of such foreign state, he may direct that such products of such foreign state as he may deem proper shall be excluded from importation to the United States; that whenever the President shall be satisfied that any of the above-described conditions exists he shall issue a proclamation to this effect, and ninety days thereafter all the dutiable imports into the United States from the offending foreign state, or such of the dutiable products as are named in the proclamation, being the product of such foreign state, shall be subject to the increased rates of duty specified in the proclamation; or in the case of duty-free imports from such foreign state, all such imports or such of them as are named in the proclamation, being the product of the offending foreign state, shall become dutiable at the rates of duty specified in the proclamation; or, in the case of the prohibition of importation, such articles of merchandise as the President shall have selected and named in his proclamation, being the product of the said offending foreign state, shall not be entitled to entry at any of the ports of the United States, and the importation thereof shall be prohibited. All articles of merchandise imported contrary to this act shall be forfeited to the United States, and shall be liable to be seized, prosecuted, and condemned, in like manner and under the same regulations, restrictions, and provisions as have been heretofore established for the recovery, collection, distribution, and remission of forfeitures to the United States by the several revenue laws. Whenever the provisions of this act shall be applicable to importations into the United States of the products of any foreign state, they shall be applicable thereto whether such products are imported directly from the country of production or otherwise. The President may at any time by proclamation, which shall be effective upon a date to be specified therein, revoke, modify, terminate, or renew any such direction hereinbefore authorized as, in his opinion, the public interest may require. To secure information to assist the President in the discharge of the duties imposed upon him by this section and the officers of the Government in the administration of the customs laws, the President is hereby authorized to employ such persons as may be required."

Nothing in this act contained shall be so construed as to abrogate or in any manner impair or affect the provisions of any act of Congress to promote the reciprocal trade relations of the United States with another country.

4 — REJECTED PROVISION OF THE UNDERWOOD BILL OF 1913

That whenever the President shall ascertain as a fact that any country, dependency, colony, province, or other political subdivision of government imposes any restrictions, either in the way of tariff rates or provisions, trade or other regulations, charges or exactions, or in any other manner, directly or indirectly, upon the importations into or sale in such foreign country of any agricultural, manufactured, or other product of the United States which unduly or unfairly discriminates against the United States or the products thereof; or whenever he shall ascertain as a fact that any such country, dependency, colony, province, or other political subdivision of government imposes any restriction or prohibition upon the *exportation of any article to the United States which unduly or unfairly discriminates against the United States; or whenever he shall ascertain as a fact that any such country, dependency, colony, province, or other political subdivision of government does not accord to the products of the United States reciprocal and equal or equivalent treatment, he shall have the power and it shall be his duty to suspend by proclamation the operation of the provisions of this Act relative to the rates of duty to be assessed upon the importation of the following specified articles, or such of them as he may deem just and applicable, and to substitute therefor the rates of duty hereinafter prescribed upon such articles when imported directly or indirectly from such country, dependency, colony, province or other political subdivision of government:*

Fish, fresh, smoked, and dried, pickled, or otherwise prepared; coffee; tea; lime; earthen, stone, and china ware; lemons; coal, bituminous culm slack and shale and compositions used for fuel in which coal and coal dust is the component material of chief value whether in briquets or other form; cheese; wines of all kinds; malt liquors; knitted goods; silk dresses and silk goods; leather gloves; laces and embroideries, of whatever material composed, and articles made wholly or in part of the same; toys; jewelry, precious and semiprecious and imitation precious stones, suitable for use in the manufacture of jewelry; sugars, tank bottoms, sirup of cane juice and concentrated molasses, testing by the polariscope not above seventy-five degrees; molasses; wool; vegetable oils.

On the issuance of such proclamation and until its revocation there shall be levied, collected, and paid upon all articles covered thereby, when imported directly or indirectly from the place mentioned therein, the following rates:

On fish, fresh, smoked, and dried, pickled, or otherwise prepared, 1 cent per pound; on coffee, 3 cents per pound; on tea, 10 cents per pound; lime, 10 per centum ad valorem; on the following articles one and one-fourth times the rate specified in section one of this Act, namely, on earthen, stone, and china ware; expressed oils; lemons; cheese; wines of all kinds; malt liquors; knitted goods; silk dresses and silk goods;

leather gloves; laces and embroideries, of whatever material composed, and articles made wholly or in part of the same; toys; jewelry and precious, semiprecious, and imitation precious stones, suitable for use in the manufacture of jewelry. On the following, in addition to the duties as provided in section one of this Act, the duties specified below:

On sugars, tank bottoms, sirup of cane juice and concentrated molasses, testing by the polariscope not above seventy-five degrees, fifteen-hundredths cent per pound, and for every additional degree by the polariscope test, one one-hundredth cent per pound; on molasses, 2 cents per gallon.

On wool of the sheep, hair of the Angora goat, alpaca and other like animals, and all wools and hair on the skins of such animals, and all wool wastes by whatever description known, 15 per centum ad valorem.

On coal, bituminous, and shale, 45 cents per ton of twenty-eight bushels, eighty pounds to the bushel; coal slack or culm, such as will pass through a half-inch screen, and briquets of which coal and coal dust is the component part of chief value, 15 cents per ton of twenty-eight bushels, eighty pounds to the bushel.

And the President may provide for drawbacks for the refunding of the duty paid upon any such coal, culm, or slack imported for the purpose of being used for fuel upon vessels propelled by steam and engaged in trade with foreign countries or between Atlantic and Pacific ports of the United States and which vessels are registered under the laws of the United States.

That whenever the President shall ascertain as a fact that such restriction or prohibition or lack of accord of reciprocal and equivalent treatment has ceased, he shall have the power and it shall be his duty to revoke such proclamation, whereupon the articles covered thereby, when imported from the place mentioned therein, shall pay the rates of duty otherwise provided by law. But this provision shall not be applicable beyond the period of three years after the date of the passage of this Act unless Congress shall otherwise prescribe.

B — HAITIAN FISCAL PROTECTORATE TREATY

(Proclaimed May 3, 1916)

ARTICLE I

The Government of the United States will, by its good offices, aid the Haitian Government in the proper and efficient development of its agricultural, mineral and commercial resources and in the establishment of the finances of Haiti on a firm and solid basis.

ARTICLE II

The President of Haiti shall appoint, upon nomination by the President of the United States, a General Receiver and such aids and employees as may be necessary, who shall collect, receive and apply all customs duties on imports and exports accruing at the several custom houses and ports of entry of the Republic of Haiti.

The President of Haiti shall appoint, upon nomination by the President of the United States, a Financial Adviser, who shall be an officer attached to the Ministry of Finance, to give effect to whose proposals and labors the Minister will lend efficient aid. The Financial Adviser shall devise an adequate system of public accounting, aid in increasing the revenues and adjusting them to the expenses, inquire into the validity of the debts of the Republic, enlighten both Governments with reference to all eventual debts, recommend improved methods of collecting and applying the revenues, and make such other recommendations to the Minister of Finance as may be deemed necessary for the welfare and prosperity of Haiti.

ARTICLE III

The Government of the Republic of Haiti will provide by law or appropriate decrees for the payment of all customs duties to the General Receiver, and will extend to the Receivership, and to the Financial Adviser, all needful aid and full protection in the execution of the powers conferred and duties imposed herein; and the United States on its part will extend like aid and protection.

ARTICLE IV

Upon the appointment of the Financial Adviser, the Government of the Republic of Haiti, in coöperation with the Financial Adviser, shall collate, classify, arrange and make full statement of all the debts of the Republic, the amounts, character, maturity and condition thereof, and the interest accruing and the sinking fund requisite to their final discharge.

ARTICLE V

All sums collected and received by the General Receiver shall be applied, first, to the payment of the salaries and allowances of the General Receiver, his assistants and employees and expenses of the Receivership, including the salary and expenses of the Financial Adviser, which salaries will be determined by previous agreement; second, to the interest and sinking fund of the public debt of the Republic of Haiti; and, third, to the maintenance of the constabulary referred to in Article X, and then the remainder to the Haitian Government for purposes of current expenses.

In making these applications the General Receiver will proceed to pay salaries and allowances monthly and expenses as they arise, and on the first of each calendar month, will set aside in a separate fund the quantum of the collection and receipts of the previous month.

ARTICLE VI

The expenses of the Receivership, including salaries and allowances of the General Receiver, his assistants and employees, and the salary and expenses of the Financial Adviser, shall not exceed five per centum of the collections and receipts from customs duties, unless by agreement by the two Governments.

ARTICLE VII

The General Receiver shall make monthly reports of all collections, receipts and disbursements to the appropriate officer of the Republic of Haiti and to the Department of State of the United States, which reports shall be open to inspection and verification at all times by the appropriate authorities of each of the said Governments.

ARTICLE VIII

The Republic of Haiti shall not increase its public debt except by previous agreement with the President of the United States, and shall not contract any debt or assume any financial obligation unless the ordinary revenues of the Republic available for that purpose, after defraying the expenses of the Government, shall be adequate to pay the interest and provide a sinking fund for the final discharge of such debt.

ARTICLE IX

The Republic of Haiti will not without a previous agreement with the President of the United States, modify the customs duties in a manner to reduce the revenues therefrom; and in order that the revenues of the Republic may be adequate to meet the public debt and the expenses of the Government, to preserve tranquillity and to promote material prosperity, the Republic of Haiti will coöperate with the Financial Adviser in his recommendations for improvement in the methods of collecting and disbursing the revenues and for new sources of needed income.

ARTICLE X

The Haitian Government obligates itself, for the preservation of domestic peace, the security of individual rights and full observance of the provisions of this treaty, to create without delay an efficient constabulary, urban and rural, composed of native Haitians. This constabulary shall be organized and officered by Americans, appointed by the President of Haiti, upon nomination by the President of the United States. The Haitian Government shall clothe these officers with the proper and necessary authority and uphold them in the performance of their functions. These officers will be replaced by Haitians as they, by examination, conducted under direction of a board to be selected by the senior American officer of this constabulary and in the presence of a representative of the Haitian Government, are found to be qualified to assume such duties. The constabulary herein provided for, shall, under the direction of the Haitian Government, have supervision and control of arms and ammunition, military supplies, and traffic therein, throughout the country. The high contracting parties agree that the stipulations in this Article are necessary to prevent factional strife and disturbances.

ARTICLE XI

The Government of Haiti agrees not to surrender any of the territory of the Republic of Haiti by sale, lease, or otherwise, or jurisdiction over such territory, to any foreign government or power, nor to enter into any treaty or contract with any foreign power or powers that will impair or tend to impair the independence of Haiti.

ARTICLE XII

The Haitian Government agrees to execute with the United States a protocol for the settlement, by arbitration or otherwise, of all pending pecuniary claims of foreign corporations, companies, citizens or subjects against Haiti.

ARTICLE XIII

The Republic of Haiti, being desirous to further the development of its natural resources, agrees to undertake and execute such measures as in the opinion of the high contracting parties may be necessary for the sanitation and public improvement of the Republic, under the supervision and direction of an engineer or engineers, to be appointed by the President of Haiti upon nomination by the President of the United States, and authorized for that purpose by the Government of Haiti.

ARTICLE XIV

The high contracting parties shall have authority to take such steps as may be necessary to insure the complete attainment of any of the objects comprehended in this treaty; and, should the necessity occur, the United States will lend an efficient aid for the preservation of Haitian Independence and the maintenance of a government adequate for the protection of life, property and individual liberty.

ARTICLE XV

The present treaty shall be approved and ratified by the high contracting parties in conformity with their respective laws, and the ratifications thereof shall be exchanged in the City of Washington as soon as may be possible.

ARTICLE XVI

The present treaty shall remain in full force and virtue for the term of ten years, to be counted from the day of exchange of ratifications, and further for another term of ten years if, for specific reasons presented by either of the high contracting parties, the purpose of this treaty has not been fully accomplished.

C — CHINA AND THE PACIFIC

1 — OPEN DOOR POLICY

SECRETARY HAY TO MINISTER BUCK

This Government, animated with a sincere desire to insure to the commerce and industry of the United States and of all other nations perfect equality of treatment within the limits of the Chinese Empire for their trade and navigation, especially within the so-called "spheres of influence or interest" claimed by certain European powers in China, has deemed the present an opportune moment to make representations in this direction to Germany, Great Britain, and Russia.

To obtain the object it has in view and to remove possible causes of international irritation and reestablish confidence so essential to commerce, it has seemed to this Government highly desirable that the various powers claiming "spheres of interest or influence" in China should give formal assurances that —

FIRST. They will in no way interfere with any treaty port or any vested interest within any so-called "sphere of interest" or leased territory they may have in China.

SECOND. The Chinese treaty tariff of the time being shall apply to all merchandise landed or shipped to all such ports as are within said "sphere of interest" (unless they be "free ports"), no matter to what nationality it may belong, and that duties so leviable shall be collected by the Chinese Government.

THIRD. They will levy no higher harbor dues on vessels of another nationality frequenting any port in such "sphere" than shall be levied on vessels of their own nationality, and no higher railroad charges over lines built, controlled, or operated within such " sphere " on merchandise belonging to citizens or subjects of other nationalities transported through such " sphere " than shall be levied on similar merchandise belonging to their own nationals transported over equal distances.

The policy pursued by His Imperial German Majesty in declaring Tsingtao (Kiaochao) a free port and in aiding the Chinese Government in establishing there a custom-house, and the ukase of His Imperial Russian Majesty of August 11 last in erecting a free port at Dalny (Talienwan) are thought to be proof that these powers are not disposed to view unfavorably the proposition to recognize that they contemplate nothing which will interfere in any way with the enjoyment by the commerce of all nations of the rights and privileges guaranteed to them by existing treaties with China.

Repeated assurances from the British Government of its fixed policy to maintain throughout China freedom of trade for the whole world insure, it is believed, the ready assent of that power to our proposals. It is no less confidently believed that the commercial interests of Japan would be greatly served by the above-mentioned declaration, which harmonizes with the assurances conveyed to this Government at various times by His Imperial Japanese Majesty's diplomatic representative at this capital.

You are therefore instructed to submit to His Imperial Japanese Majesty's Government the above considerations, and to invite their early attention to them, and express the earnest hope of your Government that they will accept them and aid in securing their acceptance by the other interested powers.

I am, etc., JOHN HAY.

VISCOUNT AOKI TO MR. BUCK

[Translation.]

DEPARTMENT OF FOREIGN AFFAIRS,
Tokio, the 26th day, the 12th month of the 32d year of Meiji.
(*December 26, 1899.*)

MR. MINISTER: I have the honor to acknowledge the receipt of the note No. 176 of the 20th instant, in which, pursuing the instructions of the United States Government, your excellency was so good as to communicate to the Imperial Government the representations of the United States as presented in notes to Russia, Germany, and Great Britain on the subject of commercial interests of the United States in China.

I have the happy duty of assuring your excellency that the Imperial Government will have no hesitation to give their assent to so just and fair a proposal of the United States, provided that all the other powers concerned shall accept the same.

I avail myself, etc.,

VISCOUNT AOKI SIUZO,
Minister for Foreign Affairs.

2 — ROOT-TAKAHIRA DECLARATION

IMPERIAL JAPANESE EMBASSY
WASHINGTON

NOVEMBER 30, 1908.

SIR:

The exchange of views between us, which has taken place at the several interviews which I have recently had the honor of holding with you, has shown that Japan and the United States holding important outlying insular possessions in the region of the Pacific Ocean, the Governments of the two countries are animated by a common aim, policy, and intention in that region.

Believing that a frank avowal of that aim, policy, and intention would not only tend to strengthen the relations of friendship and good neighborhood, which have immemorially existed between Japan and the United States, but would materially contribute to the preservation of the general peace, the Imperial Government have authorized me to present to you an outline of their understanding of that common aim, policy, and intention:

1. It is the wish of the two Governments to encourage the free and peaceful development of their commerce on the Pacific Ocean.

2. The policy of both Governments, uninfluenced by any

aggressive tendencies, is directed to the maintenance of the existing status quo in the region above mentioned and to the defense of the principle of equal opportunity for commerce and industry in China.

3. They are accordingly firmly resolved reciprocally to respect the territorial possessions belonging to each other in said region.

4. They are also determined to preserve the common interest of all powers in China by supporting by all pacific means at their disposal the independence and integrity of China and the principle of equal opportunity for commerce and industry of all nations in that Empire.

5. Should any event occur threatening the status quo as above described or the principle of equal opportunity as above defined, it remains for the two Governments to communicate with each other in order to arrive at an understanding as to what measures they may consider it useful to take.

If the foregoing outline accords with the view of the Government of the United States, I shall be gratified to receive your confirmation.

I take this opportunity to renew to Your Excellency the assurance of my highest consideration.

K. TAKAHIRA.

Honorable ELIHU ROOT,
Secretary of State.

3 — LANSING-ISHII AGREEMENT

[*The Secretary of State to the Ambassador Extraordinary and Plenipotentiary of Japan, on Special Mission.*]

DEPARTMENT OF STATE,
Washington, November 2, 1917.

Excellency:

I have the honor to communicate herein my understanding of the agreement reached by us in our recent conversations touching the questions of mutual interest to our Governments relating to the Republic of China.

In order to silence the mischievous reports that have from time to time been circulated, it is believed by us that a public announcement once more of the desires and intentions shared by our two Governments with regard to China is advisable.

The Governments of the United States and Japan recognize that territorial propinquity creates special relations between countries, and, consequently, the Government of the United States recognizes that Japan has special interests in China, particularly in the part to which her possessions are contiguous.

The territorial sovereignty of China, nevertheless, remains unimpaired and the Government of the United States has every confidence in the repeated assurances of the Imperial Japanese Government that while geographical position gives Japan such special interests they have no desire to discriminate against the trade of other nations or to disregard the commercial rights heretofore granted by China in treaties with other powers.

The Governments of the United States and Japan deny that they have any purpose to infringe in any way the independence or territorial integrity of China and they declare furthermore, that they always adhere to the principle of the so-called " Open Door " or equal opportunity for commerce and industry in China.

Moreover, they mutually declare that they are opposed to the acquisition by any Government of any special rights or privileges that would affect the independence or territorial integrity of China or that would deny to the subjects or citizens of any country the full enjoyment of equal opportunity in the commerce and industry of China.

I shall be glad to have Your Excellency confirm this understanding of the agreement reached by us.

Accept, Excellency, the renewed assurance of my highest consideration.

ROBERT LANSING

His Excellency
Viscount KIKUJIRO ISHII,
Ambassador Extraordinary and Plenipotentiary of Japan, on Special Mission.

[*The Ambassador Extraordinary and Plenipotentiary of Japan, on Special Mission, to the Secretary of State.*]

THE SPECIAL MISSION OF JAPAN,
Washington, November 2, 1917.

SIR: I have the honor to acknowledge the receipt of your note of to-day, communicating to me your understanding of the agreement reached by us in our recent conversations touching the questions of mutual interest to our Governments relating to the Republic of China.

I am happy to be able to confirm to you, under authorization of my Government, the understanding in question set forth in the following terms:

In order to silence mischievous reports that have from time to time been circulated, it is believed by us that a public announcement once more of the desires and intentions shared by our two Governments with regard to China is advisable.

The Governments of Japan and the United States recognize that territorial propinquity creates special relations between countries, and, consequently, the Government of the United States recognizes that Japan has special interests in China, particularly in the part to which her possessions are contiguous.

The territorial sovereignty of China, nevertheless, remains unimpaired and the Government of the United States has every confidence in the repeated assurances of the Imperial Japanese Government that while geographical position gives Japan such special interests they have no desire to discriminate against the trade of other nations or to disregard the commercial rights heretofore granted by China in treaties with other Powers.

The Governments of Japan and the United States deny that they have any purpose to infringe in any way the independence or territorial integrity of China and they declare, furthermore, that they always adhere to the principle of the so-called " Open Door " or equal opportunity for commerce and industry in China.

Moreover, they mutually declare that they are opposed to the acquisition by any government of any special rights or privileges that would affect the independence or territorial integrity of China or that would deny to the subjects or citizens of any country the full enjoyment of equal opportunity in the commerce and industry of China.

I take this opportunity to convey to you, Sir, the assurances of my highest consideration.

K. Ishii

Ambassador Extraordinary and Plenipotentiary of Japan on Special Mission.

Honorable Robert Lansing,
Secretary of State.

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